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Framework Convention on Climate Change

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Item 20(a) of the provisional agenda
Administrative, financial and institutional matters
Audit report and financial statements for 2017

Financial report and audited financial statements for the year 2017 and report of the United Nations Board of Auditors

Note by the secretariat

1. The financial procedures for the Conference of the Parties, its subsidiary bodies and the secretariat require that a final audited statement of accounts for the full financial period be provided to the Conference of the Parties as soon as possible after the accounts for the financial period are closed. They also stipulate that the accounts and financial management of all funds governed by these financial procedures shall be subject to the internal and external audit process of the United Nations.

2. The United Nations Board of Auditors has audited the financial statements for the year 2017. The full text of the Board's report and of the audited financial statements is included in the annex and reproduced as received, with the original pagination. The secretariat's response to the audit recommendations is in the addendum to this document (FCCC/SBI/2018/INF.11/Add.1).

3. The Subsidiary Body for Implementation is invited to take note of the information contained in the audited financial statements and the report of the Board. It may also wish to recommend appropriate actions in draft decisions on administrative and financial matters for consideration and adoption by the Conference of the Parties at its twenty-fourth session and by the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol at its fourteenth session.

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Annex

United Nations Framework Convention on Climate Change

United Nations

Report of the United Nations Board of Auditors

on the financial statements of the

United Nations Framework Convention on Climate Change

for the year ended 31 December 2017

United Nations Framework Convention on Climate Change

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Chapter I

Report of the Board of Auditors on the financial statements: Audit Opinion

Opinion

We have audited the financial statements of the United Nations Framework Convention on Climate Change (UNFCCC) which comprise the statement of financial position (statement I) as at 31 December 2017, the statement of financial performance (statement II), statement of changes in net assets (statement III), cash flow statement (statement IV) and the statement of comparison of budgets to actual amounts (statement V) for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of UNFCCC as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of UNFCCC in accordance with the ethical requirements that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the Financial Statements and Auditor's Report thereon

The Executive Secretary is responsible for the other information. The other information comprises the financial report for the year ended 31 December 2017 included in Chapter IV, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing UNFCCC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern

and using the going concern basis of accounting unless Management either intends to liquidate UNFCCC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing UNFCCC's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UNFCCC's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on UNFCCC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause UNFCCC to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of UNFCCC that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and Rules of UNFCCC and legislative authority.

In accordance with Article VII of the United Nations Financial Regulations and Rules, we have also issued a long-form report on our audit of UNFCCC.

Rajiv Mehrishi
Comptroller and Auditor General of India
Chair of the Board of Auditors

Kay Scheller
President of the German Federal Court of Auditors
(Lead Auditor)

Mussa Juma Assad
Controller and Auditor General of the United Republic of Tanzania

24 July 2018

United Nations Framework Convention on Climate Change

Chapter II

Long-Form Report of the Board of Auditors

Summary

The United Nations Framework Convention on Climate Change (UNFCCC) is an international environmental treaty that entered into force in 1994. The Board of Auditors (Board) audited the financial statements and reviewed the operations of UNFCCC for the year ended 31 December 2017. The audit was carried out at UNFCCC's headquarters in Bonn, Germany.

Audit opinion

The Board has issued an unqualified audit opinion on the financial statements for the period under review as reflected in chapter I.

Overall conclusion

UNFCCC had accumulated surplus and reserves of $130.1 million. For the fourth year in a row, UNFCCC showed a deficit. The deficit has been reduced from $17.2 million in 2016 to $9.7 million in 2017.

The 2017 financial statements were presented for audit on 31 March 2018. The Board did not identify any material deficiencies in the financial statements. The Board found certain areas for further improvement including manual preparation of the financial statements, funding of long term employee benefits and management of consultants and individual contractors that merit attention.

Key findings and recommendations

The Board's main findings are as follows:

a) *Outstanding indicative contributions*
UNFCCC receives indicative contributions which are the equivalent of assessed contributions received for the United Nations. The Board noted outstanding indicative contributions amounting to €5.5 million. 60 per cent of these contributions pertain to the period from 2009 to 2016. The outstanding balances include also small amounts of less than €1,000. The Board also noted that UNFCCC implemented various efforts to recover these contributions in arrears. However, the outstanding contributions increased in the last years. The Board is concerned that the increasing amount of outstanding indicative contributions could affect the secretariat's functions and its financial sustainability.

b) *Manual preparation of the financial statements*
The Board noted that UNFCCC prepared its financial statements by using spread sheets. UNFCCC extracts the trial balance from Umoja. After manual adjustments, it is linked to various spreadsheets that build statements I, II, III and IV. This process is cumbersome and error-prone.

c) *Accounting entries done by United Nations Headquarters*
The Board noted several postings from United Nations Headquarters into the Umoja business area designated to UNFCCC operations and reimbursements of repatriation grants. Their background was not yet clear to UNFCCC.

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d) Funding employee benefit liabilities

The liabilities for after-service health insurance (ASHI) amount to $ 62.9 million and for repatriation to $ 11.3 million. In line with the treatment within the United Nations, the Board found that as of 2017, UNFCCC started funding the liabilities for ASHI ($ 0.6 million) and repatriation ($ 0.7 million). However, the legal background of the pooled United Nations fund and the calculation basis for funding the repatriation l. bilities are unclear to UNFCCC.

e) Policies on consultants and individual contractors

The Board noted that UNFCCC uses its internal guideline on the administration of consultants and individual contractors that is not in accordance with the United Nations instruction ST/AI/2013/4 in several aspects. The Board found that establishing deviating rules was not covered by the delegation of authority. In addition, UNFCCC did neither adhere to its own policy nor to the United Nations instructions consistently.

f) Findings on the samples of consultants and individual contractors

The Board sampled 25 cases with a total invoiced value $ 5.7 million and found several weaknesses. In one case a retired staff member was recruited without the mandatory competitive process and without the mandatory registration in the consultancy roster database. In four cases, the documentation in the consultancy roster database did not comply with the requirements. Approvals were not documented completely on file.

g) Implementation of the anti-fraud and anti-corruption framework

The Board noted that UNFCCC did not implement all measures of the anti-fraud and anti-corruption framework. The Board found that no systematic fraud risk assessment existed and a focal point for the implementation was not in place.

Recommendations

Based on the key findings above, the Board recommends that UNFCCC:

a) Assess additional suitable collaborative measures such as payment plans to ensure that the outstan 'ing contributions are recovered in a timely manner and seek approval from the Conference of Pa. ties on installment plans.

b) Assess whether it could benefit from an ICT system that permits the automated preparation of the financial statements.

c) Explore options for a "pre-close-out" to analyze and clear its accounts.

d) Review its funding policy for after-service health insurance and repatriation liabilities, in particular the duration of the accumulation phase, and seek for a COP decision on the funding plan.

e) Enter into an agreement with United Nations Headquarters on the pooled fund for after-service health insurance and repatriation liabilities to have a legal basis for its contributions and the corresponding scope of service.

f) Critically examine its policies on hiring consultants and individual contractors and whether there is still reason for maintaining them.

g) Adhere to the delegated authority including the required agreement of the Under-Secretary-General for Administration and Management (USG-AM) and update its guideline on consultants and individual contractors in the light of the United Nations' policies if UNFCCC should decide to continue applying its own policies.

h) Ensure that no exceptions are to be made from the mandatory registration in the roster for consultants and individual contractors, from proper documentation and from the mandatory competitive process for retired staff.

i) Perform a fraud risk assessment in line with or embedded in the enterprise risk management and dedicate an organizational function (focal point) which coordinates, implements and monitors the implementation of the framework anti-fraud and anti-corruption framework.

Key Facts

$85.70 million	Revenue
$95.35 million	Expenses
$9.66 million	Deficit for the year
$130.13 million	Accumulated Surpluses and Reserves
$230.39 million	Assets
$100.26 million	Liabilities
$30.52 million	Core budget
403	Staff

A. Mandate, scope and methodology

1. The United Nations Framework Convention on Climate Change (UNFCCC) is the parent treaty of the 1997 Kyoto Protocol which aims at stabilizing greenhouse gas concentrations in the atmosphere at a level that will prevent dangerous human interference with the climate system. Currently, the convention has 197 Parties. The work of UNFCCC is facilitated by its Secretariat located in Bonn, Germany. The Secretariat is institutionally linked to the United Nations without being integrated in any programmes.

2. The Board of Auditors (Board) has audited the financial statements of UNFCCC and reviewed its operations for the year ended 31 December 2017 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with Article VII of the Financial Regulations and Rules of the United Nations and the annex thereto and in accordance with the International Standards on Auditing. These standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNFCCC as at 31 December 2017

and the results of its operations, changes in net assets and cash flows for the year then ended, in accordance with the International Public-Sector Accounting Standards (IPSAS). This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the bodies and whether revenue and expenses had been properly classified and recorded in accordance with the United Nations Regulations and Rules and financial procedures approved by the Conference of the Parties (COP) in Decision 15/CP.1. The audit included a general review of the financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

4. In addition to auditing accounts and financial transactions, the Board carried out reviews of the UNFCCC operations under United Nations financial regulation 7.5. This enables the Board to make observations with respect to the efficiency of the financial procedures, the accounting system, internal financial controls and, in general, the administration and management of UNFCCC operations. The Board also followed up on its previous recommendations. These matters are addressed in the relevant sections of this report.

5. The audit was carried out from 16 to 27 April and 7 to 18 May 2018. The examination of UNFCCC included a review of the internal controls and accounting systems and procedures only to the extent considered necessary for the effective performance of our examination. The Board has taken up three cross-cutting audit themes in 2017: the use of consultants and individual contractors, safety and security services and implementation of the anti-fraud and anti-corruption framework.

6. The findings and observations should not be regarded as representing a comprehensive statement of all the weaknesses which may exist in the financial and management systems at UNFCCC, or as identifying all improvements which could be made to the systems and procedures.

7. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the COP. The Board's observations and conclusions were discussed with UNFCCC Management, whose views have been appropriately reflected in the report.

B. Findings and recommendations

1. Follow-up of previous recommendations

8. The Board noted that out of the total 15 recommendations that remained outstanding up to 31 December 2016, 11 (74 per cent had been implemented, 2 (13 per cent) were under implementation and 2 (13 per cent) were overtaken by events. The implementation rate shows an increase compared to the previous year when 64 per cent were fully implemented and 27 per cent were under implementation. Details of the status of the implementation of the recommendations are presented in the **Annex 1**.

9. In last year's report, the Board made several recommendations on cases of re-employments shortly after separations upon restructurings and repatriation grant payments without sufficient evidence. The Board found that these cases bore a risk of irregular activities and recommended that UNFCCC re-evaluate them, consult the Office of Human Resources Management (OHRM) and refer the cases to the United Nations Office of Internal Oversight Services (OIOS) or Legal Affairs (LA). The Board found that UNFCCC had not acted upon the recommendations until April 2018 when the audit team followed up, or at least had not documented any steps taken until then. The Board urges UNFCCC to enhance its efforts to document its decisions in order to ensure transparency. The Board encourages UNFCCC to devise suitable measures to ensure that cases as those mentioned above are dealt with expeditiously and open matters are clarified speedily in the future. In this context, the Board refers to the recommendation to strengthen the function of overall focal point for audit by re-instating it at the Deputy Executive Secretary level, refer para. 74 and anti-fraud focal point, refer para. 139.

2. Financial overview

Financial overview

10. The total revenue of UNFCCC for the year ended 31 December 2017 was $ 85.7 million (2016: $ 72.7 million) while total expenses amounted to $ 95.4 million (2016: $ 89.9 million) resulting in a deficit of $ 9.7 million (2016: $ 17.2 million). From the deficit of $ 9.7 million, $ 7.9 million stem from the trust fund for the clean development mechanism. For the fourth year in a row, UNFCCC's financial statements showed a deficit (2015: $ 43.2 million; 2014: $ 37.5 million). The assets totalled $ 230.4 million (2016: $ 225.6 million) while the total liabilities were $ 100.3 million as at 31 December 2017 (2016: $ 102.6 million), leaving an accumulated surplus and reserves balance of $ 130.1 million (2016: $ 123.0 million). The increase of the accumulated surplus and reserves was due to actuarial gains, which increased the net assets by $ 16.6 million. The important financial ratios are presented in table 1.

Table 1: Ratio analysis

Ratio	*31 December 2017*	*31 December 2016*	*31 December 2015*
Total assets : total liabilities[a]			
Total assets : total liabilities	2.30	2.20	2.38
Current ratio[b]			
Current assets : current liabilities	7.53	9.65	8.59
Quick ratio[c]			
(Cash + short-term investments + accounts receivable): current liabilities	6.87	9.11	7.96
Cash ratio[d]			
(Cash + short-term investments) : current liabilities	6.41	8.57	7.47

Source: Calculated on the basis of UNFCCC's financial statements 2017

Note:

[a] A high ratio is a good indicator of solvency.

[b] A high ratio indicates an entity's ability to pay off its current liabilities.

[c] The quick ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid current position.

[d] The cash ratio is an indicator of an entity's liquidity. It serves to measure the amount of cash, cash equivalents or invested funds available in current assets to cover current liabilities.

11. Compared to the previous year, there was little change in the total assets to total liabilities ratio as at 31 December 2017. However, there was a decrease in current ratio, quick ratio and cash ratios. The ability of UNFCCC to cover its current liabilities has decreased compared to the previous financial year. Reason for the decrease was an increase in the accruals for goods and services, shown in the payables and accruals mainly incurred by goods and services received to carry out COP 23 in Bonn in November 2017.

12. Out of the total assets of $ 230.4 million, $ 200.3 million were cash and cash equivalents, short-term investments and long-term investments deposited in the United Nations Office at Geneva (UNOG) cash pool which was in turn invested by the United Nations treasury in New York.

13. Compared to the previous year, the total revenue significantly increased by $ 13.0 million. The main reasons were the increasing voluntary contributions in the special account for conference and other recoverable costs. Those voluntary contributions increased by $ 14.8 million from $ 4.3 million to $ 19.1 million, due to contributions made to carry out COP 23. Clean development mechanism (CDM) and joint implementation determination (JI) fees decreased by $ 2.3 million due to weak market conditions. Interest income increased by $ 0.4 million, and gains in foreign exchange

by $ 3.9 million (2017: gain $ 3.3 million, 2016: loss $ 0.6 million).

14. Total expenses for the year 2017 were $ 95.4million (2016: $ 89.9 million). Staff expenses constituted the major expenditure item and slightly increased by $ 1.0 million, whereas the staff numbers decreased from 423 staff (2016) to 403 (2017) as at 31 December of the respective year. The increase of the staff expenses was due to temporary staff hired for COP 23 in Bonn and to higher interest and service costs for the employee benefit liabilities. Expenses for travel and contractual services increased by $ 10.3 million, mainly due to COP 23 in Bonn.

Misstatements identified by the Board that have been corrected

15. The Board identified minor misstatements in the financial statements and the notes thereto which it communicated to UNFCCC. UNFCCC shared the Board's opinion that these cases were misstated and made the relevant corrections. These concern the following issues:

16. Notes to the financial statements: The Board found several inconsistencies in the financial statements and notes as at 31 December 2017 that were submitted on 31 March 2018, for example incorrect previous year figures or incorrect figures in the cash flow statement. In the course of the audit UNFCCC eliminated inconsistencies in the statements and made some minor modifications to the notes. The Board suggested that UNFCCC make further changes to the notes in order to improve the comprehension for the reader. UNFCCC stated that in 2018, the organization would improve the notes referring to "Cash pools", to "Accounts receivable" and to "Employee benefits". In addition UNFCCC intended to disclose separate notes for the items of the statement of financial performance.

17. Mapping of accounts: The Board observed that the Chart of Accounts used by UNFCCC contains some deviations from the United Nations Chart of accounts:

- UNFCCC did neither show short-term nor long-term voluntary contributions receivable separately in statement I. Short-term voluntary contributions receivables for 2017 amount to $4 million and long-term voluntary contributions receivables amount to $0.97 million. Both are classified in one position that is "Other receivable" and explained in the notes. According to IPSAS 1 Presentation of financial statements, each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately unless they are immaterial (IPSAS 1 para. 45).

- A number of general ledger accounts (e.g. liabilities for the employee benefit repatriation grant) was classified to the financial statement position "Payables and accruals" instead of "Employee benefits liabilities". This leads to recording higher liabilities in one class (accounts payable and accrued liabilities) and lower liabilities in another class (employee benefits liabilities). The Board is of the opinion that the general ledger accounts which relate to a benefit (repatriation grant) to which a staff member is entitled should be recognized in the financial statement position "Employee benefits liabilities".

18. During the audit process, UNFCCC agreed to review and adapt its mapping, taking into account the United Nations Chart of accounts, in order to present voluntary contributions in the statement I and to show general ledger accounts which relate to staff benefits in the financial statement position "Employee benefits liabilities".

3. Outstanding indicative contributions

19. UNFCCC funds its activities from indicative and voluntary contributions. In order to reflect the funding sources and the use of the resources, UNFCCC established 11 separate trust funds and special accounts in Umoja.

20. The trust fund for the core budget of UNFCCC and the trust fund for the International Transaction Log (ITL) are funded from indicative contributions.

- The income of the trust fund for the core budget consists of contributions from the parties to the convention. They are calculated on the basis of an indicative scale, adopted by the COP. The indicative scale is based on the United Nations scale of contribution approved by the General Assembly. The income of this trust fund supports the activities of the secretariat. The indicative contributions approved by COP for the financial period 2016-2017 amounted to $58.5 million.

- The income of the ITL trust fund supports the activities of ITL and consists of fees paid by the Parties to the Kyoto Protocol. The budget of this trust fund is approved by COP serving as the meeting of the Parties to the Kyoto Protocol (CMP). In the financial period 2016-2017, the indicative contributions approved by CMP amounted to $5.7 million.

21. In accordance with COP decision 15/CP.1, indicative contributions to the core budget of the Convention and to the budget of ITL are due at 1 January of the year to which the assessment relates. Hence they are recognised as an asset at 1 January of the year to which the assessment relates. The Board found that the cash income varied over the year and did not have a peak in January. As of 1 January of the following calendar year, the unpaid balance of such contributions and advances shall be considered to be one year in arrears.

22. UNFCCC stated that the amount of outstanding indicative contributions from the Parties from 1996 to 2017 as at 19 March 2018 was €5.5 million. Table 2 shows the split to the different years.

Table 2. Outstanding indicative contributions to the convention and to the Kyoto Protocol

In EUR	*2017*	*2016*	*2010-2015*	*1996-2009*	*Total outstanding indicative contributions as at 19 March 2018*
Outstanding indicative contributions	2 131 814	1 202 715	1 970 836	174 569	5 479 934

Source: UNFCCC, BI Report Status of contributions v2.2

23. The Board noted that 60 per cent of the outstanding contributions as at 19 March 2018 pertained to the period from 2009 to 2016. Out of the outstanding contributions, 39 per cent pertain to the financial year 2017, 22 per cent to the financial year 2016, 36 per cent to the financial years 2010 to 2015 and 3 per cent to the financial years 1996 to 2009. 90 per cent of the outstanding contributions relate to 13 Parties. The Board also noted that six Parties had never paid their contributions to the Convention and two Parties paid their contributions only once. The Board noted that the outstanding balances include also small amounts, with 28 outstanding positions of less than €1,000.

24. The current low level of cash in the working capital reserve of the core budget is the result of the high level of outstanding contributions from prior years. Over recent years, the working capital under the UNFCCC core budget has not been sufficient to cover the timing differences between receipt of cash and payment of activities. The deficit had to be covered by internal borrowings from accumulated surpluses in other trust funds and repaid when core contributions were received.

25. UNFCCC stated that the organization had undertaken various efforts to recover the outstanding contributions. UNFCCC:

- Sent annual notification letters to each party, at least 90 days before payment was due. Any

outstanding contributions were also indicated in the notification. Parties were also requested to indicate upfront when they will pay;

- Sent quarterly reminder letters to the national focal points;
- For the first time, the COP President agreed, in November 2017 to send letters to the Parties with outstanding contributions reminding them to pay;
- The last reminder letters sent to the Parties included an offer made to the Parties interested in developing a payment plan with the secretariat;
- When the Executive Secretary and other senior management meet any parties at conferences/ meetings/ workshops throughout the year, they were provided with factsheets on financial information to raise this topic in the discussion.

26. During the forty-eighth session of the Subsidiary Body for Implementation (SBI) held in Bonn in May 2018, the Parties expressed their "concern over the degree to which late and long-outstanding indicative contributions to the core budget might impact the secretariat's ability to implement its activities in a timely manner". The Parties noted that some United Nations entities apply various levels of punitive measures such as restrictions to voting rights. These measures are often combined with collaborative approaches. During the session, the parties discussed and reviewed punitive measures and practices of other United Nations organizations. Parties agreed not to exclude any Party from the UNFCCC process and therefore not to impose punitive measures. The Parties expressed the view that negotiation and collaboration might prove more effective than punitive measures in the UNFCCC context. This discussion follows on from previous sessions, including a paper presented to the SBI in May 2016, discussions at the COP 22 in Marrakesh, and a technical workshop held in November 2017, requested by Parties, to share information on inter alia outstanding contributions.

27. The Board acknowledges UNFCCC's efforts to collect the indicative contributions from Parties in a timely manner and to settle the outstanding contributions. However, the Board is concerned that the increasing amount of outstanding indicative contributions could affect the secretariat's functions and its financial sustainability. Furthermore, these contributions could become irrecoverable, e.g. due to political changes in member states.

28. While the Board takes note of the consensus among Parties not to consider punitive measures, the Board encourages UNFCCC to continue to work on collaborative measures. It might be helpful to request the views of the Parties on what type of measures would be acceptable. The COP could set up an ad hoc working group to develop proposals for addressing the long outstanding contributions. Moreover, agreements could be encouraged that other Parties, private persons or companies might support Parties with the payment of their contributions. These agreements should take into account that indicative contributions are not earmarked. The Board holds that offering payment plans to Parties with major contributions in arrears might be useful. Regarding the number of outstanding small amounts, UNFCCC should analyse where these stem from and how to handle them.

29. **The Board recommends that UNFCCC assess additional suitable collaborative measures such as payment plans to ensure that the outstanding contributions are recovered in a timely manner and seek approval from the COP on instalment plans.**

30. **The Board recommends that UNFCCC assess options to clear the small amounts of outstanding contributions.**

31. UNFCCC agreed with the recommendations. UNFCCC stated that the organization would continue pursuing all efforts to collect outstanding core contributions and would clear the outstanding small amounts within the financial rules and procedures.

4. Financial reporting and management

Manual preparation of the financial statements

32. UNFCCC prepares its financial statements by using Excel spread sheets. UNFCCC extracts the trial balance from Umoja and does the following manual adjustments:

- Statement I: The indicative contributions are reclassified from the "voluntary contributions" accounts to the financial statement position "indicative contributions". According to UNFCCC, the reason for this is that at the moment of the conversion to Umoja, the indicative contributions were posted on two voluntary contributions accounts and pertain to old outstanding contributions from Parties. They need to be revaluated and an allowance for doubtful accounts is posted at year-end accordingly. The balance of the two voluntary contributions accounts and the corresponding allowance are then reclassified at year-end to indicative contribution.
- Statement II: Revenue from Parties for indicative contributions is posted to the "voluntary contributions" accounts and needs to be reclassified to "revenue from indicative contributions". While an account for indicative contributions from Parties exists in Umoja, UNFCCC stated that United Nations Headquarters did not permit the use of this account.
- Also, eliminations of revenue and expenses positions are made.

UNFCCC links the trial balance with these changes to numerous spread sheets which lead to the statements I, II, III and IV.

33. The Board is of the opinion that preparing the financial statements outside of Umoja is cumbersome and error-prone. The Board noted that other United Nations entities had implemented a software solution that was an Umoja application. The software solution permits a largely automated preparation of the financial statements. This greatly facilitated the preparation process of the financial statements very much and enabled the Administration to complete the financial statements before the submission date determined in the financial rule 106.1 (b).

34. UNFCCC stated that the initial assessment for participation of UNFCCC in the Headquarters' initiative on automated financial statement preparation project has shown that such an approach was not cost-effective for UNFCCC given the limited complexity of its operations and having just one central office location. However, the Board holds that UNFCCC should make use of the facilities that Umoja provide to the greatest possible extent. UNFCCC agreed to check again with United Nations Headquarters whether there was an implementation version that would be more cost-effective for UNFCCC.

35. **The Board recommends that UNFCCC assess whether it could benefit from an ICT system that permits the automated preparation of the financial statements.**

36. UNFCCC agreed with the recommendation subject to costs and availability of funding.

Accounting entries done by United Nations Headquarters

37. The Board noted several postings from United Nations Headquarters that were not clear to UNFCCC. They related to postings into the UNFCCC-specific business area in Umoja and reimbursement of repatriation grants.

38. For 2017, the Board noted 48 postings that Headquarters processed into the Umoja business area designated to UNFCCC in a fund that represents the regular budget of the United Nations Headquarters (10UNA). This fund was not an UNFCCC fund and therefore not included in the financial statements of UNFCCC. UNFCCC stated that Headquarters has the right to post accounting entries into the regular budget fund to whichever business area they desired.

39. The Board holds that the Umoja business area that is specific to UNFCCC should be used only for postings which pertain to UNFCCC operations and therefore to UNFCCC funds. Even though the United Nations regular budget fund used for the postings is not included in UNFCCC's financial statements, it is misleading that Headquarters use UNFCCC's business area that is outside of the United Nations Secretariat. Especially in the light of the proposed United Nations reform that stresses the aspects of accountability and delegation of authority, clear responsibilities to use business areas or funds within Umoja are essential.

40. In the staff payments for 2017, the Board noted cases of negative repatriation grant postings amounting to $ 253,051 processed by United Nations Headquarters. UNFCCC stated that after the implementation of Umoja in 2015, for 10 out of 71 cases the repatriation expense was reimbursed from a United Nations fund to UNFCCC. UNFCCC explained the background as follows: In the separation month, a liability of the expected repatriation grant is built in a UNFCCC fund. Up to two years later, when the staff member successfully claimed the repatriation grant, the payment was processed from the UNFCCC fund to the staff member and the liability was cleared. However, in 10 cases repatriation payments were later reimbursed from a United Nations fund. UNFCCC followed up on these refunds that were automatically posted in Umoja. However, UNFCCC could not provide details for these postings. UNFCCC could also not indicate any pattern of when these reimbursements are posted in Umoja and when not.

41. While the unclear postings are not material, the Board holds that UNFCCC should timely follow up on automated, central postings that are not under control of UNFCCC until a clear understanding is reached. Being aware of staff posts not filled in the Finance unit, the Board holds that following up on these postings is important. Since clarification might require liaising with UNOG or United Nations Headquarters, this should ideally not be done at year-end. Therefore, UNFCCC should assess the option of a "pre-close-out" in the course of the year in order to "clear up" its accounts in due time.

42. Apart from the findings mentioned above, findings as per para. 15 to 18 should be analysed in a pre-close out. Therefore, when considering a pre-close out, UNFCCC should inter alia:

- clarify why postings to a fund which belongs to United Nations regular budget need to be done in the business area designated for UNFCCC operations; ideally, make sure that the UNFCCC specific business area is not used for other purposes;
- clarify the function of the United Nation fund used for the repatriation reimbursements and treat all the reimbursement cases in the same way; otherwise justify with clear evidence;
- assess the possibility of transferring the old balances of the indicative contributions from voluntary contributions accounts to indicative contributions accounts in Umoja;
- together with Headquarters, explore the options for using the general account designated for revenue from indicative contributions received from the Parties.

43. **The Board recommends that UNFCCC explore options for a "pre-close-out" to analyze and clear its accounts.**

44. UNFCCC agreed with the recommendation. UNFCCC stated that it welcomed the suggestion of a pre-close out and closer monitoring. UNFCCC also pointed out that for 2017, due to staff shortages (departure and retirement of staff), insufficient resources were available to analyse and review the transactions to the extent desirable.

5. Funding employee benefit liabilities

Funding ASHI and repatriation grant liabilities

45. The post-employment long-term benefits granted to employees include after-service health insurance (ASHI), repatriation grant, annual leave, death benefit and pension benefits. The pension

benefits are paid through the United Nations Joint Staff Pension Fund (UNJSPF). While UNJSPF is a funded, multi-employer defined benefit plan, the remaining long-term employee benefits are financed through a 'pay as you go' system.

46. With the adoption of IPSAS in 2014, UNFCCC stated in its financial statements that the liabilities for ASHI, repatriation grant and travel, death benefits and annual leave are considered unfunded in accordance with IPSAS 25. Therefore, no fair value of plan assets has been recognized and the entire ASHI liability is recognized as current and non-current liabilities of UNFCCC. Interest cost and current service cost related to the defined benefit obligations are recognized on the statement of financial performance as a component of staff expenditure.

47. UNFCCC like other United Nations entities relies on an external actuary. Every year the external actuary carries out an actuarial valuation. The actuary updates the actuarial assumptions used for the valuation such as the discount rate every year. The population used for the valuation is updated every other year. For the years in-between, the actuary conducts a roll-forward of the population. Actuarial gains or losses for defined benefits obligations resulting from changes in actuarial assumptions or experience adjustments are directly recognized in the consolidated statement of changes in net assets. The balance of each provision is reviewed annually and adjusted to reflect actual experience.

48. ASHI represents 80 per cent of the unfunded employee benefit liabilities totalling $ 78.6 million. The liabilities for after-service health insurance (ASHI) amount to $ 62.9 million and for repatriation to $ 11.3 million. The amounts in the financial statements 2017 and accompanying notes concerning UNFCCC's unfunded liabilities are shown in table 3.

Table 3: UNFCCC's unfunded liabilities

IN 1000	*Total*	*Thereof ASHI*	*Thereof Repatriation*
Employee benefits (current)	2 679	245	1 431
Employee benefits (non-current)	75 957	62 637	9 886
Interest cost	1 111	538	330
Current service cost	8 431	7 288	636
Actual (gains) and losses	(16 638)	(14 658)	1 349

Source: UNFCCC's financial statements 2017

49. In its 2015 audit report, para. 11, the Board noted that the absence of earmarked assets to fund those liabilities raised a risk to the financial ability of UNFCCC to liquidate those 'pay-as-you-go' liabilities as and when they arise in future. Therefore, the Board recommended that UNFCCC work on provisioning for the unfunded liabilities in order to mitigate the risk of failure to pay those liabilities. In November 2016 Parties discussed the funding of employee benefit liabilities for staff paid of the core budget at COP 22. Parties were informed of the on-going discussions within the broader United Nations context and agreed to await the outcomes of that discussion.

50. The General Assembly (Res 68/244) decided to continue a 'pay-as-you-go' approach for ASHI liabilities for operations funded from assessed contributions for the United Nations entities. Assessed contributions are generally predictable and cover budgets that reflect all requirements for the period in question, including those for current and retired employees. This is not true for activities financed from voluntary contributions. Here, projects and other activities do not always adequately fund ASHI and other retirement benefits for staff, creating a potential destabilizing effect on the long-term viability of entities funded from voluntary contributions.

51. Pursuant to regulation 3.12 of the Financial Regulations and Rules of the United Nations and

to safeguard the future financial health, a United Nations Interoffice Memorandum (IOM) to the heads of departments / offices dated 29 November 2016 stressed the need to systematically set aside funds for after-service health insurance liabilities for staff paid from voluntary contributions. The funding requirement was estimated to be as high as 9 per cent of gross salaries plus post-adjustment for all categories of staff funded from voluntary contributions. To mitigate the impact of the new funding policy on on-going projects and programme delivery, a margin of 3 per cent was to be applied as at 1 January 2017. These funds will be pooled in one fund used by all participating United Nations entities. Out of this fund, the current and future liabilities will be paid, thus relieving individual offices from the 'pay-as-you-go' charges for staff funded from voluntary contributions. The fund is still in the accumulation phase. It is held in the United Nations cash and investment pool and managed by United Nations Headquarters in New York.

52. Although UNFCCC was not addressed specifically in the IOM, it has started funding the liabilities for ASHI and repatriation grants by accruing for these expenses as of January 2017. This includes all funds except core budget and ITL for which the 'pay-as-you-go' basis still applies since UNFCCC's indicative contributions are the equivalent of assessed contributions within the United Nations.

53. For 2017 UNFCCC paid $ 0.6 million to the United Nations fund for ASHI. This contribution was calculated on a monthly accrual equivalent to 3 per cent of gross salary plus post adjustment and will be applied through payroll to all posts funded from voluntary contributions. In addition UNFCCC paid $ 0.7 million for repatriation liabilities to the ASHI fund which was automatically posted in Umoja.

54. The Board noted that the basis for funding repatriation liabilities was unclear to UNFCCC. UNFCCC stated that it would check with UNOG and United Nations Headquarter to get more details on the methodology.

55. The Board found that so far no agreement had been established with United Nations Headquarters on the payments made to the pooled United Nations fund. UNFCCC has not received clear instructions if and when the fund will be used to cover ASHI payments of retirees. When UNFCCC followed up with UNOG, UNOG stated that it would check with United Nations Headquarters. UNFCCC has not received a reply so far.

56. While the Board welcomes that UNFCCC is setting aside funding for ASHI and repatriation liabilities, the legal background is unclear since the General Assembly is not responsible for governing UNFCCC. Furthermore, the contributions to the fund have to be paid in addition to the payments on a 'pay-as-you-go' basis. In particular, it is unclear whether the IOM that is not addressed to UNFCCC is part of the 'financial regulations and rules and procedures of the United Nations' with which UNFCCC needs to comply as part of the institutional linkage.

57. If the IOM is not applicable to UNFCCC, the Board still holds that UNFCCC requires prudent financial management and a strong commitment to financial sustainability in the long term, as UNFCCC is heavily financed through voluntary contributions. Therefore, its ability to set aside funds for past commitments will remain limited in the future. In this light, funding future liabilities for ASHI is essential.

58. Since UNFCCC is institutionally linked to the United Nations, but not governed by the General Assembly, the Board holds that COP is the right body to take funding decisions for long-term liabilities. COP should decide whether funding the employee liabilities stemming from posts funded from the voluntary contributions is sufficient or whether posts funded from the core budget should be included. A funding policy should be approved by the COP. In this context UNFCCC should consider the duration of the accumulation phase and possible other funding, such as the long-term investments that currently amount to $ 44.6 million. So far, UNFCCC has not known which part of the unfunded employee benefits is linked to the voluntary contributions. Therefore, it might be helpful if the next

actuarial report would contain this information.

59. UNFCCC stated that it would request clarification from United Nations Headquarter on the legal and operational arrangements for the ASHI accruals to have a sound legal basis for the arrangements in place. UNFCCC stated further that this discussion would be included in the Budget and Finance network meetings in 2018 to which UNFCCC has observer status. Any impact for UNFCCC would be included in the report to COP 24.

60. **The Board recommends that UNFCCC review its funding policy for after-service health insurance and repatriation liabilities, in particular the duration of the accumulation phase, and seek a COP decision on the funding plan.**

61. **The Board recommends that UNFCCC enter into an agreement with United Nations Headquarters on the pooled fund for after-service health insurance and repatriation liabilities to have a legal basis for its contributions and the corresponding scope of service.**

62. UNFCCC welcomes the recommendations.

Notes to the financial statements on funding long-term employee benefit liabilities

63. The Board found that the notes to the financial statements did not provide any information about the changed process of funding. In the course of the Board's audit, UNFCCC amended the note "Employee benefits" accordingly (refer para. 16). Neither the notes to the financial statements nor the actuarial report show a breakdown on whether the staff positions are funded from the core budget or from voluntary contributions. Furthermore, the financial statements do not provide information about the allocation between funded and unfunded liabilities.

64. The Board holds that enhanced information in the note "Employee benefits" of the financial statements would be helpful. UNFCCC should disclose which amounts of the liabilities remain funded and unfunded. The additional information should include the legal background for participating in the ASHI fund, the duration of the accumulation phase of the ASHI fund and the amount paid on a 'pay-as-you-go' basis. The Board suggests the following:

> Funded liabilities
> UNFCCC has commenced funding plans for the defined-benefit liabilities. The balance of liability funded as at 31 December 2018 is shown in the table below:
>
> | | *Funded* | *Unfunded* | *Total liability as at 31 December 2018* | *Percentage funded* |
> |---|---|---|---|---|
> | After-service health insurance | XXX | XXX | XXX | X.X |
> | Repatriation benefits | XXX | XXX | XXX | X.X |
> | Annual leave | XXX | XXX | XXX | X.X |
> | **Total employee benefits liabilities under defined-benefit plans** | **XXX** | **XXX** | **XXX** | **X.X** |
>
> The funded amount of $ XXX XXX is included in cash and cash equivalents and investments. This amount does not qualify as a plan asset under IPSAS 25 "Employee benefits" because such funds are not held in a trust fund that is legally separate from UNFCCC, and that exists solely to pay or fund employee benefits.

65. UNFCCC stated that it would prepare additional notes for the financial statements 2018 in light of the on-going discussions required on how UNFCCC is treated within the United Nations Headquarter arrangements (refer para. 61). Based on the outcome of these discussions, UNFCCC

intends to develop an appropriate disclosure on this matter.

66. **The Board recommends that UNFCCC enhance the note 'Employee benefits' of the financial statements with additional information about the provision of funding of long-term employee benefits.**

67. UNFCCC accepted the recommendation.

6. Management Team's focal point for audit and oversight matters

68. The Executive Secretary entrusted the Management Committee (MC) with the overall responsibility for overseeing the review of internal and external auditor's reports submitted to the secretariat, and for monitoring the implementation of the auditor's recommendations contained in those reports in accordance with B/2001/5 (bulletin). The bulletin also promulgated that an MC focal point was to be appointed who is responsible for audit and oversight matters including monitoring the responsible office(s)' progress of implementing the auditor's recommendations. In particular, the Executive Secretary approved the designation of the then Deputy Executive Secretary as MC focal point. The policy did not make provisions for the unavailability of the official designated.

69. The Board noted that since the retirement of the designated focal point in April 2017, this position was technically vacant. The Board holds that the function of the focal point for both audit and oversight matters is very important, especially when following up on audit recommendations of previous audit cycles. Therefore, the Board highly appreciates the designation of a focal point for these matters. The Executive Secretary should update this delegation, either to a person or to a specific function.

70. UNFCCC stated that the bulletin dated back long ago and that meanwhile the MC had been replaced by the Management Team (MT). The MT had established several sub-committees including the sub-committee for finance established in 2012 with the purpose of overseeing the secretariat's financial situation. UNFCCC stated further that the function of coordinating the implementation of audit recommendations was contained in the job description of the Director of Administrative Services.

71. The Board acknowledged that specific audit issues were dealt with in specific sub-committees. However, the sub-committees focused on separate matters such as financial or ICT matters according to their terms of reference. In the Board's view, this situation did not ensure systematic oversight in all areas including areas not covered by a specific sub-committee, e.g. compliant staff administration, procurement and contractual services. The Board noted that staff was neither informed about who the management main focal point was, nor what his/her duties and responsibilities in terms of implementing the audit recommendations were. A systematic approach would imply that both programme managers and staff members were aware about that there was a management focal point and who it was. In addition, the Board is convinced that programmes would better contribute and manage obstacles towards the implementation if they knew that the implementation of the audit recommendations was a management priority. The Board refers to its findings that even at management level, requirements are sometimes not fully complied with, for instance recruiting a retiree as consultant without registration in the roster (refer para. 93-96) or previous years cases (refer Annex 1 No. 11). The Board holds that the current state of regulations stays behind that of 2001 where a management focal point at the Deputy Executive Secretary level was personally assigned and his responsibilities were announced to all staff.

72. While acknowledging that each programme has assigned the role of a focal point to a person, the Board found neither terms of reference for their duties and responsibilities nor for the division of responsibilities between the management focal point and the ones from the programmes.

73. Therefore, the Board sees the need that UNFCCC strengthen its oversight and monitoring functions for following-up on audit findings by re-instating the oversight function at the level of the Deputy Executive Secretary. The Board holds that terms of reference for both the management focal point and the programme focal points should be defined. All staff members need to know who the audit focal point from management side is and what his/her responsibilities are. The Board also encourages UNFCCC to consider assigning the Deputy Executive Secretary as a management focal point for audit oversight as previously to clearly announce and strengthen the matter as a management priority.

74. **The Board recommends that UNFCCC clarify the roles of audit focal points at all levels; in particular update the delegation to a specific function, preferably the Deputy Executive Secretary, establish clear terms of reference including division of responsibilities between the secretariat's management and the focal points from the individual programmes and ensure that this information is disseminated to all staff.**

75. UNFCCC accepted the recommendation.

7. Policies for managing consultants and individual contractors

76. Management of consultants and individual contractors has been selected by the Board as a cross-cutting topic for compliance audit of financial year 2017. The Board conducted the audit in particular with a view to UNFCCC's Administrative Guideline for managing consultants and individual contractors, AG/2012/2 (guideline). The guideline's purpose is to provide clarifications on the Administrative Instruction of the United Nations Secretariat, ST/AI/1999/7 (instruction of 1999) and to establish appropriate procedures.

77. In 2013, the United Nations Secretariat issued Administrative Instruction, ST/AI/2013/4 (instruction of 2013), replacing the instruction of 1999. By now, UNFCCC has not updated its guideline, stressing in response to our pertinent question that this guideline only was applying to consultants and individual contractors.

Delegation of Authority

78. UNFCCC stated that it had been authorized to manage consultants and individual contractors' issues through delegation of authority. As per delegation of authority of March 1996, UNFCCC may establish specific rules on the administration of staff in agreement with the Secretary-General, represented by the Under-Secretary-General for Administration and Management (USG-AM).

79. UNFCCC's internal administrative document B/2014/1 of 5 June 2014 clarified that UNFCCC needs to adhere to United Nations' administrative issuances. The document outlined that issuances of UNFCCC may clarify existing United Nations issuances only and deviating specific rules required agreement with the United Nations Secretariat.

80. UNFCCC's guideline is not in accordance with the United Nations instruction ST/AI/2013/4 in several aspects:

- The instruction of 2013 restricts the deployment of consultants to a maximum of 24 months, whether continuous or not, in a 36-month period. As per UNFCCC guideline, only the actual working days count whereas the days of an interruption do not count. For instance, if a consultant works 10 days every month within a period of six months, the days sum up to 60 days leading to three months of deployment instead of six.
- UNFCCC defined the 36-month period counting from the first day of the contract. As a result, up to 48 months of employment without interruption were possible, instead of 24 months as per United Nations instruction.

- While UNFCCC stipulates a three-month break prior to engaging retirees, the United Nations considers a one- month break to be sufficient.

81. The Board found that USG-AM had not been involved when UNFCCC was drawing up its guideline.

82. The Board is of the view that the delegated authority did not include establishing specific rules without agreement of USG-AM. Consequently, the current guideline and UNFCCC's decisions based thereon are not covered by the delegation of authority.

Policies governing the management of consultants and individual contractors

83. The Board noted that UNFCCC used a variety of policies to manage consultants and individual contractors:

(a) No. 6 of the Requests of Outside Expertise (RoE) referred to the instruction of 1999;
(b) The contracts of consultants and individual contractors referred to the instruction of 2013;
(c) UNFCCC's guideline did not include any provisions on the engagement of former staff members below retirement age. While performing sample checks, the Board noted that UNFCCC applied the requirement of a one-month break prior to engagement in accordance with instruction of 2013. UNFCCC stated that in the absence of a policy covering this point in its own guideline it has been common practice to adhere to the United Nations instruction from 2013.

84. In four of the cases sampled, UNFCCC did neither adhere to its own policy nor to the United Nations instructions. These cases are described separately in para. 91-109.

85. The Board stresses the importance of consistent selection processes in UNFCCC's practice towards consultants and individual contractors. In addition, the maintenance of own guidelines binds additional capacities and can lead to a situation where outdated provisions are applied as happened in the case of UNFCCC. Therefore, the Board holds that entity-specific policies should be strictly analysed as to whether they justify the additional efforts and risks. The Board encourages UNFCCC to assess whether the specific rules of 2012 are still beneficial.

86. When doing the review of the need for own policies for consultants and individual contractors, UNFCCC should follow a comprehensive approach including reviewing other own policies such as travel (para. 119) or restructuring (refer Annex 1 No. 12).

87. UNFCCC confirmed the observations and stated that it would review its policies and procedures, taking into account its own needs, the on-going reform agenda of the Secretary-General and available resources.

88. **The Board recommends that UNFCCC critically examine its policies on hiring consultants and individual contractors and whether there is still reason for maintaining them.**

89. **If UNFCCC should conclude to continue applying its own policies, the Board recommends that UNFCCC adhere to the delegated authority including the required agreement of the USG-AM and update its guideline on consultants and individual contractors in the light of United Nations' policies.**

90. UNFCCC accepted the recommendation.

8. Findings on the samples of consultants and individual contracts

91. The Board sampled the engagement of 25 consultants and individual contractors with

more than 60 contracts out of a total of 251 people with 391 contracts. The total invoiced value in 2017 was $ 5.7 million. Legal basis for the compliance audit was UNFCCC's administrative guideline AG/2012/2, "Recruitment of consultants and individual contractors". The Board refers to para 76-90 on the question which policies apply and whether specific guidelines are covered by the delegation of authority. The Board found weaknesses in the following areas.

Tracking of former and retired staff members as consultants or individual contractors

92. The Board had requested that UNFCCC mark all former and retired staff in the provided list of consultants and contractors. At least in two cases the list provided was not correct. The Board would expect that UNFCCC is in the position to monitor correctly whether the consultants or individual contractors were former and/or retired staff members as this is a prerequisite for applying the proper guidelines. UNFCCC accepted this observation and stated that, moving forward, it would establish an internal monitoring.

Lacking registration in the roster although required for eligibility

93. All candidates who wish to be considered for consultancy or individual contract need to submit their details in the UNFCCC roster prior to being offered a contract. In particular they need to submit a form "P11" which provides the personal and professional details and select skills from a pre-defined skill set. UNFCCC staff needs to upload further documents such as Terms of Reference, Request of Outside Expertise and personnel documents of the consultant or contractor to the roster. The registration is a basic pre-condition for applying various further provisions for the selection process at UNFCCC.

94. In one case a retired staff member was recruited as a consultant. The Board found that the candidate did not register in the roster, the required documents were not uploaded in the roster and no competitive process took place (refer para. 97). The approval was not on file.

95. UNFCCC provided communication that the direct recruitment had been authorized later in the process.

96. The Board holds that UNFCCC's guideline did not allow for any exceptions from the mandatory registration of consultants and the documentation when a candidate has been selected. Consequently, the registration was mandatory also for approved direct recruitments. The Board holds that the selection process of this case was not compliant with the requirements established by UNFCCC. To register or to fill in forms is a necessary step to ensure compliance with the rules.

Mandatory competitive process for retired staff members

97. For hiring retired staff members, the guideline provided additional mandatory conditions; in particular, that for retirees a competitive process is mandatory; refer para. 2.2 of the guideline.

98. In the same case in which the registration in the roster was lacking, in violation of applicable rules, the Board found that the retired staff member was selected as consultant without a competitive process. UNFCCC stated that the consultant was recruited on the basis of instructions by senior management.

99. The Board acknowledges that there are cases where UNFCCC need the special skills and knowledge in the field in which certain consultants are experts. Since the Board is of the view that the legal basis applied by UNFCCC did not allow for any exceptions from a competitive process for hiring retirees as consultants, the Board holds that the selection process of this case did not comply with the requirements established by UNFCCC.

100. The United Nations instruction sets even higher standards for recruiting retirees as consultants, such as approval by OHRM for these cases. The Board refers to the recommendation on UNFCCC-specific policies as the specific compliance issue must be seen in the context of assessing UNFCCC's guideline (refer para. 88).

Exceptions from competitive selection process

101. The selection procedures established by UNFCCC stipulated that the hiring manager should identify at least three qualified candidates from the roster. If there were not enough qualified candidates, the consulting assignment would have to be advertised on UNFCCC's website. UNFCCC's guideline allowed for exceptions from the competitive process "only in case of force majeure". Such cases must be fully justified and documented; reasons must be stated for a single-source selection and the rationale for recommending the particular candidate.

102. In the same case in which the registration in the roster was lacking, no justification and/or documentation of the decision to recruit the candidate directly as required was on file, refer para. 96. UNFCCC only provided the complete communication to the Board upon additional discussions on whether the direct recruitment had been properly justified. According to this communication, the reason for the direct recruitment of the consultant was coordinating matters related to COP 23.

103. The Board has doubts as to whether the importance of COP justifies a "force majeure". Therefore, the Board holds that the selection process of this case did not comply with the requirements established by UNFCCC.

Incomplete documentation in the roster

104. To complete the selection process, UNFCCC's guideline stipulates that the programme administrative team uploads several documents to the roster. In addition to the case mentioned above where the candidate had not registered at all, the Board found three cases where not all required documents as per guideline were uploaded. In all other cases sampled, the documents for the recruitment were uploaded into both the roster and Umoja.

105. UNFCCC confirmed the finding. It stated that, however, the roster was not the primary depository of documents. While Umoja provided the opportunity to upload supporting documents in the system directly, the need to upload the same on the roster might be redundant. UNFCCC stated further that its consultancy policy related to pre-Umoja and thus UNFCCC would review the policy to ensure that it reflects the proper work flow.

106. The Board acknowledged that UNFCCC recognized the need to update its policy. However, UNFCCC's approach was not consistent as UNFCCC adhered to the guideline in the other cases sampled where it redundantly uploaded the documents. These cases show that UNFCCC neither consistently deviates from its guideline for the sake of avoiding redundancies, nor consistently applies it consistently.

107. The Board is aware about the redundant depository as a result of an outdated guideline and new processes implemented with Umoja. However, as long as the guideline is the legal source of managing consultants at UNFCCC, at least the registration needs to be complete.

108. To sum up, the Board found several cases of non-compliance with UNFCCC's specific guideline on consultants and individual contractors. When making exceptions, UNFCCC needs to document the reasons and to ensure that the case fits to the rule for the exception. Furthermore, the Board holds that UNFCCC must document approvals properly. This means that the file needs to contain a document from the official authorized to approve the case. From discussions with Management, the Board understood that Management advocated for compliance with all requirements of the guideline. The compliance issues would be addressed adequately with

strengthened accountability. The Board will closely monitor future progress.

109. **The Board recommends that UNFCCC ensure that no exceptions are to be made from the mandatory registration in the roster, from proper documentation and from the mandatory competitive process for retired staff.**

110. UNFCCC agreed with the recommendation.

9. Outdated procurement policy

111. According to its financial statements, UNFCCC spent approximately $30 million for acquisition of contractual services and other goods in 2017 versus $20 million in 2016.

112. UNFCCC had developed an Administrative Guideline "UNFCCC Procurement Policy and Procedures", AG/2011/4 (guideline), in order to clarify the application of the relevant United Nations regulations, rules and practices in the context of UNFCCC secretariat procurement procedures, taking into account its specific organizational and operational context. It specifies the actions, roles and responsibilities throughout the procurement cycle, i.e. planning, solicitation and awards, and contract implementation.

113. The Board found that the guideline referred to the United Nations Financial Regulations and Rules (9 May 2003) and the United Nations Procurement Manual. The two documents were updated on 1 July 2013. The guideline described the processing of procurement related documents within the Integrated Management Information System (IMIS) that had been replaced by Umoja. Also, the description of the process of "Procurement planning and consolidation" was outdated. The same is true for the names of the organizational units.

114. The Board found information on the UNFCCC intranet that a new procurement policy is currently being developed.

115. Procurement & General Services Unit (PGSU) stated that the guideline should be updated soon. A revision and update of the Procurement Policy and Procedures is included on the Administrative Services work plan for 2018.

116. It is important to reflect the current status of the above-mentioned United Nations documents and the introduction of Umoja in updated UNFCCC Procurement Policy and Procedures to ensure efficient and compliant procurements. The current situation may expose procurement staff to an avoidable risk. Furthermore, the Board holds that UNFCCC should ensure a regular update in order to take into account current developments and be compliant, corresponding to other UNFCCC-specific policies (refer para. 76-90).

117. **The Board recommends that UNFCCC expedite the revision process of its procurement policy and procedures in order to provide an up-to-date basis for its procurement activities.**

118. UNFCCC agreed with the recommendation.

10. Travel advance purchase policy

119. The Administrative Instruction "Official Travel" (ST/AI/2013/3) stipulates that in accordance with staff rule 7.8, all travel arrangements for individuals travelling on behalf of the United Nations, including advance booking and purchase of tickets, should be finalized 16 calendar days in advance of commencing official travel (advance purchase policy). To meet this requirement, staff members shall submit the travel request 21 days prior to commencing the official trip. During the

additional five days, the official trip is certified and approved. The administrative instruction states that programme managers are required to provide justification on all official travel arrangements that could not be finalized 16 calendar days in advance of the commencement of travel. UNFCCC stated that it issued an updated UNFCCC-specific travel policy and procedures in 2018 (UNFCCC AG/2018/2), refer the Board's finding on UNFCCC-specific policies, para. 76-90.

120. The purpose of the advance purchase policy was to ensure best prices. The Board refers to the review of air travel policies in the United Nations system, "Achieving efficiency gains and cost savings and enhancing harmonization" from the Joint Inspection Unit (JIU/REP/2017/3).

121. The Board noted that UNFCCC has met the advance purchase policy in 2017 in 65.4 per cent of all cases. The average finalization time was 23.2 days, hence below the 16-day target by 7.2 days on average. The Compliance Report shows that the average approval time had been well within the 5-day target on average; the non-compliance had been due to exceeding the time frame of 16 days for advance booking and purchase of tickets.

122. The Board found 919 cases of non-compliance in 2017 (for UNFCCC as travel processing office). The Board noted that in 142 of those cases (15.5 per cent) no justification was provided in Umoja why the travel arrangements could not be finalized in time. The Board is aware that in the meantime a list of standard reasons is provided in order to indicate a justification. This list contains the position "Other (provide details)"that permits to insert meaningful free text. However, meaningful details might be omitted and therefore justification missing.

123. UNFCCC stated that late travel requests without a completed justification field would in future be returned to the traveler for completion prior to further processing.

124. **The Board recommends that UNFCCC ensure that justification is provided for all cases of non-compliance without exception.**

125. UNFCCC agreed with the recommendation

11. Safety and security basic training attendance rate

126. The Board selected Security and Safety Services as a cross-cutting audit topic for the financial year 2017. UNFCCC shares the premises of United Nations Campus in Bonn with 18 other United Nations entities. Security and Safety Services are provided for all these entities by United Nations Volunteers (UNV) programme that has budgeted $2.5 million for them. A major portion of the services was outsourced to a private security company that receives payments amounting to $2.2 million per year. The expenses for these services are shared by all entities using the United Nations Campus in Bonn according to an apportionment formula depending on the number of staff members of each entity and office space used.

127. Roles and responsibilities of actors within the United Nations Security Management System are laid down in the Security Policy Manual (Manual). The Manual stipulates that the "executive heads appoint a Senior Security Manager and/or a Security Focal Point at their Headquarters to be responsible for coordinating the organization's response to safety and security matters and providing the Executive Head and all relevant actors with advice, guidance and technical assistance." The designated UNFCCC Security Focal Point is the Director of Administration services. According to annex E. No. 7 of the Manual, Senior Security Managers need to "ensure that all personnel of their organizations and their recognized dependents are aware of security training requirements, and facilitate the provision of security training and briefings".

128. The Board has been provided with data on United Nations mandatory training completion rates for UNFCCC staff members (Organizational Development as at 31 January 2018). These data show a completion rate of 52 per cent on United Nations Basic Security Training on average. While

the completion rate as per 31 January 2018 is 97 per cent for Finance, Technology and Capacity Building programme it is at 37 per cent for Adaptation programme.

129. The Board is aware that a completion rate of 100 per cent can hardly be achieved. However, we consider it important to strive for the highest rate that can be reasonably expected.

130. UNFCCC stated that it would take further action to improve the completion rate of the training.

131. **The Board recommends that UNFCCC take action in order to improve the completion rate of the United Nations Basic Security Training.**

132. UNFCCC accepted the recommendation.

12. Anti-fraud and anti-corruption framework

133. In September 2016, the Under-Secretary-General of Management issued the "Anti-Fraud and Anti-Corruption Framework of the United Nations Secretariat" (framework), ST/IC/2016/25. To promote a culture of integrity, the framework informs about how the Secretariat should prevent, detect and respond to acts of fraud and corruption and also sets responsibilities with regard to its implementation. The Board has selected the implementation of the framework as a cross-cutting audit topic for 2017.

134. UNFCCC stated that the Information Circular from the United Nations Secretariat such as the framework is binding for UNFCCC.

135. The Board found that UNFCCC had implemented some measures such as staff trainings, the implementation of an internal review mechanism and conducting a leadership dialogue on anti-fraud and ethical behaviour. However, UNFCCC did neither provide a systematic fraud risk assessment nor establish an organizational function to coordinate, implement and monitor the various measures laid down in the framework.

136. The Board acknowledges the various efforts made by UNFCCC to contribute to an anti-fraud and anti-corruption culture. However, the Board sees room for improvement. The Board holds that UNFCCC strive to fully implement the measures listed in the framework.

137. UNFCCC stated that it was currently undergoing a review of its organizational structure and would consider dedicating an organizational function on the implementation of the framework in consideration of all other organizational priorities and funding resources. UNFCCC stated that it would amend its Enterprise Risk Management or develop a specific fraud risk assessment depending on the availability of financial resources.

138. **The Board recommends that UNFCCC perform a fraud risk assessment in line with or embedded in the enterprise risk management.**

139. **The Board recommends that UNFCCC dedicate an organizational function which coordinates, implements and monitors the implementation of the framework (focal point).**

140. UNFCCC agreed with the recommendations. The acceptance of the recommendations was on the basis of available funding and the outcome of the on-going organizational review.

C. Disclosures by Management

Write-off cash, receivables and property, ex gratia payments

141. UNFCCC reported to the Board that there were no write-offs of cash, receivables and losses of property during the year ended 31 December 2017. UNFCCC also stated that UNFCCC did not make any ex-gratia payment.

Cases of fraud and presumptive fraud

142. In accordance with International Standards on Auditing (ISA 240), the Board plans its audits of the financial statements so that it has a reasonable expectation of identifying material misstatements and irregularity (including those resulting from fraud). Our audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with Management.

143. During the audit, the Board made enquiries of Management regarding their oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the risks of fraud, including any specific risks that Management has identified or brought to their attention. The Board also enquired whether Management has any knowledge of any actual, suspected or alleged fraud. This includes enquiries of the Office of Internal Oversight. The additional terms of reference governing external audit include cases of fraud and presumptive fraud in the list of matters that should be referred to in its report.

144. UNFCCC further reported that there was no case of fraud and presumptive fraud for the financial year ended 31 December 2017.

D. Acknowledgement

145. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Secretary and staff of UNFCCC.

Rajiv **Mehrishi**
Comptroller and Auditor General of India
Chair of the Board of Auditors

Kay **Scheller**
President of the German Federal Court of Auditors
(Lead Auditor)

Mussa Juma **Assad**
Controller and Auditor General of the United Republic of Tanzania

24 July 2018

Annex

Status of implementation of recommendations up to the year ended 31 December 2016

No.	Audit report year	Paragraph reference	Recommendations of the Board	UNFCCC's response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
1.	2012 / 2013	13	Expedite the settlement of the outstanding balance of the accounts in respect of COP 16 and COP 17.	A letter has been transmitted to the Government of Mexico through the Executive Secretary in September of 2016 outlining the options on the use of the remaining project balance.	Implemented According to Mexico's instructions the amount of $79,943.94 was transferred from ZHF (Special account for conferences and other recoverable costs) to FRA (Trust fund for Supplementary activities) on 15 January 2018.	X			
2.	2015	13	Work on provisioning of the unfunded liabilities in order to mitigate the risk of failure to pay these liabilities.	UNFCCC participates in the United Nations Secretariat wide initiative to start funding the liabilities for after-service health insurance and repatriation related entitlements by accruing for these expenses starting in January 2017. This includes all funds except the core budget and the International Transaction Log. For these funds, the	Overtaken by events Since January 2017, the environment has changed since the IOM that UNFCCC applies was issued. UNFCCC has worked on provisioning of the unfunded liabilities and started funding for after-service health insurance and repatriation. Therefore the Board considers this			X	

No.	Audit report year	Paragraph reference	Recommendations of the Board	UNFCCC's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
				payments for these entitlements will be made on a pay-as-you-go basis in accordance with the General Assembly Res 68/244 and 70/248 B. UNFCCC receives indicative contributions which are the equivalent of assessed contributions received for the United Nations.	recommendation to be overtaken by events, refer chapter B 5.				
3.	2015	32	Devise a suitable mechanism to ensure timely recoveries of the fees and other claims from Designated Operating Agencies (DOE)s.	The Secretariat is modifying the accreditation IT work flow so as to accommodate tracking of fee payments. The first release of modification has been received recently and is under user testing presently. The tracking of DOEs fee payment is done separately through a dedicated excel sheet.	Implemented	X			
4.	2015	40	Make suitable disclosure in the notes to the financial statements on the	UNFCCC disagreed with this recommendation as it is not required or even	Overtaken by events Due to the continuing			X	

No.	Audit report year	Paragraph reference	Recommendations of the Board	UNFCCC's response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
			unissued Certified Emission Reductions (CERs) which were lying in the stock of UNFCCC and the total potential revenue unrealized for the CER certificates.	discouraged by IPSAS. IPSAS 19 paragraph 105 and 106 requires a note disclosure if the revenue is probable. UNFCCC considers that it is very unlikely that these fees will be collected.	decline of the CER price, it is even more unlikely that project participants will pay the share of proceeds for the uncollected CERs. The market price at 31 December 2017 for the CERs is at $0.17, hence almost equal or even less to the share of proceeds, which has to be paid to collect the CERs. Furthermore, UNFCCC changed the process to invoice the share of proceeds. From 1 January 2018 onwards, the share of proceeds will have to be paid with the request for issuance for further CERs. Therefore, no further uncollected CERs will build up. Taking these aspects into account, the Board sees the recommendation to be overtaken by events.				
5	2016	15	1.) Ensure that expenses	Correct accrual of	Implemented	X			

No.	Audit report year	Paragraph reference	Recommendations of the Board	UNFCCC's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
			are duly attributed to the financial year to which they relate. ii.) Conduct training to staff outside finance involved in the accrual procedures.	expenses was the main topic of the year-end close reworking group meetings during November and December 2017 for the preparation of the financial statements. In this group all programmes and administration units were represented. The status of outstanding obligations has been shared at several meetings with participants of the working group and the necessary action for recording service entry sheets for goods and services received prior 31 December 2017 have been discussed and clarified. FRMU also shared the relevant BI reports available for programmes to be able to retrieve the status of outstanding commitments for themselves.				
6	2016	19	Review the internal	UNFCCC agreed with the	Implemented	X			

No.	Audit report year	Paragraph reference	Recommendations of the Board	UNFCCC's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
			IPSAS policy guidance on recognition of multi-year contributions agreements in order to have them in line with IPSAS.	recommendation and has adjusted the accounting policy on recognition of multi-year contributions agreements to be in line with the United Nations IPSAS policy.	UNFCCC's IPSAS 23 policy was changed on 20 June 2017.				
7	2016	27	Establish a process that enables the presentation of the Board's report by the Lead Auditor from the Board to those charged with governance, in this case the Subsidiary Body for Implementation (SBI).	The Board has presented the report to Informal Contact group working on SBI Agenda item 21 on 8 November 2017 at Bonn.	Implemented The Board expects that the presentation of the report to the SBI becomes common practice.	X			
8	2016	33	To ensure that step increments are granted in compliance with the provisions applicable.	There was no legal obligation through the signed offer going beyond the salary step and grade. The core reason for the decision was the risk of losing the lead candidate in the selection process.	Implemented As UNFCCC showed awareness of the legal problem in this case, the Board holds that the case observed would remain an exception.	X			
9	2016	41	Complete the personnel files in accordance with the Board's observations and ensure that all contractual changes are formally documented.	An email from HR Officer referring to a management confirmation was added to the file. UNFCCC stated that it had added the email from the HR officer as an	Implemented During the review in May 2018, the Board found the email in the files as per UNFCCC's response.	X			

No.	Audit report year	Paragraph reference	Recommendations of the Board	UNFCCC's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
			signed and included in the personnel file.	approval. It stated further that it had not deemed it transparent to retroactively issue a memo or email from the manager. UNFCCC further noted that it had sought to ensure that moving forward the correct approval would be contained in the files.	The Board accepts UNFCCC's decision to refrain from a retrospective approval in the specific case as this would not change the past. However, as there was no written approval by a responsible manager, the case indicates a lack of accountability.				
10	2016	51	Revisit the provisions governing termination notice periods and ensure compliance with the standard provisions.	UNFCCC has aligned itself with the United Nations Staff Regulations and Rules that require a 30 days' notice period for fixed-term appointments and 15-day notice periods for temporary appointments and has reflected this in Letters of Appointment.	Implemented	X			
11	2016	66	Re-evaluate each of the cases described. If needed, UNFCCC should consult the Office of Human Resources Management regarding the payments made to terminated staff.	UNFCCC stated it had re-evaluated each case. Director of Administration, in her memo of 19 April 2018 has requested OHRM's review and advice on the cases.	Implemented In January 2018, UNFCCC stated that HRU had reviewed the cases but no communication with OHRM had been deemed necessary. During the	X			

No.	Audit report year	Paragraph reference	Recommendations of the Board	UNFCCC's response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
					review of the status in April 2018, the Board did not find indications that the cases had been re-evaluated as recommended. After intervention through the Board in April 2018, UNFCCC documented the steps undertaken to review the cases and informed OHRM. In doing so, UNFCCC caught up on the lacking documentation. Involving OHRM shows UNFCCC's interest in getting clearance on the correctness of the decisions made in those cases.				
12	2016	68	Evaluate the restructuring process and draft lessons learned from the restructurings of the SDM and ICT programmes before continuing with further restructurings.	A draft guidance was provided. As the United Nations Secretariat issued a draft restructuring policy, UNFCCC stated that it would consider the draft when updating its own restructuring guideline in	Under Implementation The documents provided in March 2018 did not fully reflect the findings. After raising the concerns, UNFCCC provided a revised draft of a guideline for restructuring processes where several		X		

No.	Audit report year	Paragraph reference	Recommendations of the Board	UNFCCC's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
				order to ensure compliance with the United Nations policy (refer para. 85).	of the Board's findings had been considered. Since the United Nations Secretariat had issued a draft ST/AI on downsizing policy in December 2017, UNFCCC also needs to align with this new policy. The Board considers the status of the recommendation to be under implementation.				
13	2016	81	Clarify the facts raised and where appropriate request reimbursement of the repatriation grant and inform OIOS about the cases.	Mails provided as evidence with contact with LA and OIOS.	Implemented The review of the status through the Board in April 2018 showed that neither Legal Affairs programme (LA) nor OIOS had been asked to clarify the cases. In May 2018, UNFCCC entered into informal consultations with LA and informed OIOS.	X			
14	2016	89	Give high priority to developing a business continuity / disaster recovery plan. The plans	ICT identified critical ICT services and developed a business continuity and disaster recovery plan that	Implemented UNFCCC should consider approving the plan by ES to improve the	X			

No.	Audit report year	Paragraph reference	Recommendations of the Board	UNFCCC's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
			should cover the areas mentioned in paragraphs 84 to 86 and be tested regularly.	was approved by Head of Programme. Tests are planned to be carried out, but are not scheduled yet.	commitment.				
15	2016	96	Formally designate a focal point on disability and accessibility issues and inform staff members accordingly.	1. The arrangements in place within UNFCCC regarding disability and accessibility have thus far worked as required. Technically, the premises of UN campus Bonn are managed by UNV and not UNFCCC. UNFCCC has no mandate to operate or provide such centralized activities as this is the responsibility of UN common services. Such a centralized function would need to be incorporated by UNV in the UN common services which are responsible for implementing mandates that are UN wide in Bonn. UNFCCC will raise this matter with UN Common services in next meeting. 2. The focal point for disability remains with the	Under Implementation		X		

United Nations Framework Convention on Climate Change

No.	Audit report year	Paragraph reference	Recommendations of the Board	UNFCCC's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
				Chief of Human Resources office. So far, this has not been communicated. UNFCCC stated it would make the formal announcement on its intranet as suggested by the auditors.					
	Total			15		11	2	2	0
	Percentage			100		74	13	13	0

Chapter III

Certification of the Financial Statements

The financial statements of the United Nations Framework Convention on Climate Change (UNFCCC) for the year ending 31 December 2017 have been prepared in accordance with financial rule 106.1. They include all trust funds and special accounts operated by UNFCCC.

A summary of significant accounting policies applied in the preparation of these statements is included as a note to the financial statements. The notes to the financial statements provide additional information and clarification on the financial activities undertaken by UNFCCC during the period covered by the statements, for which the Executive Secretary had administrative responsibility.

I certify that the appended financial statements of the United Nations Framework Convention on Climate Change for the year ending 31 December 2017 are correct.

(Signed) Patricia **Espinosa**
Executive Secretary
28 May 2018

United Nations Framework Convention on Climate Change

Chapter IV

Narrative financial report

Financial report on the 2017 accounts

Introduction

1. The financial statements of the United Nations Framework Convention on Climate Change (UNFCCC) are prepared in accordance with International Public Sector Accounting Standards (IPSAS) and are submitted to the Conference of Parties (COP) in accordance with the financial procedures. The financial statements include all operations under the direct authority of the Executive Secretary including the regular budget, extra-budgetary financed activities and under the Sustainable Development Mechanisms.

2017 Financial Highlights

2017 Financial Results

Total revenue:

2. Revenue in 2017 totalled USD 85.6 million as follows:

(a) The indicative contributions to the core budget of USD 27.7 million and USD 2.8 million to the budget of the International Transaction Log;

(b) Voluntary contributions from donors totalled USD 40.2 million;

(c) Fees for the CDM and JI mechanisms USD 8.6 million.

3. **Total expenses**: Expenses in 2017 totalled USD 95.3 million mainly consisting:

(a) Personnel expenses amounting to USD 55.4 million;

(b) Travel USD 9.3 million;

(c) Contractual services for USD 25.6 million;

4. While income levels on indicative contributions remained level with a minor decrease for fees for the CDM and JI a significant increase in voluntary contributions has been recorded in 2017. This increase was caused by the additional requirements of hosting COP23 in Bonn where the secretariat had to take on more responsibilities compared to previous meetings. This also resulted in a corresponding increase of expenditures under the special account for conferences.

5. **Operating result**: The net deficit of expense over revenue in 2017 is USD 9.7 million (compared to a deficit of USD 17.2 million in 2016). The main reasons for this deficit are the ongoing reduction in activities and related revenues under the Sustainable Development mechanisms resulting in a deficit of USD 7.9 million (2016: deficit of USD 7.0 million), a deficit in the Trust Fund for Participation (USD 2.1 million) as well as the service and interest employee benefits cost of USD 8.1 million recorded during 2017 (USD 7.1 million in 2016). The special account for conferences and other recoverable costs recorded a surplus of USD 4.5 million in 2017 mainly due to the arrangement for COP23 in Bonn. The overall deficit

was offset by actuarial gains amounting to USD 16.6 million as a result from the actuarial study.

6. **Assets**. Total assets as of 31 December 2017 increased by USD 4 million to USD 230 million compared to the balance at 31 December 2016 of USD 226 million. The major components of UNFCCC's assets are as follows (thousands of United States dollars):

Table 1
Summary of assets as at 31 December
(Thousands of United States dollars)

	2017	*2016*
Cash and cash equivalents	14 194	55 869
Investments	186 121	146 914
Indicative contributions receivable	5 537	6 074
Other accounts receivable	6 714	4 779
Other assets	16 104	9 782
Property, plant and equipment	365	342
Intangible assets	1 355	1 819
Total assets	**230 391**	**225 579**

7. The major assets at 31 December 2017 are cash, cash equivalents and investments totalling USD 200 million representing 97 per cent of the total assets and indicative contributions from signatories to the convention receivable of USD 5.5 million, or 2.4 per cent. The remaining assets consist of other accounts receivable, other assets (primarily advances), equipment and software.

8. **Cash, cash equivalents and investments**. Cash and cash equivalents of USD 200 million are primarily held in the UN Treasury main cash pool. While the overall cash levels remain at the same level as at 31 Dec 2016, the share of cash on the overall has been decreased significantly while the share of short-term investments has been increased correspondingly.

9. **Accounts receivable**. Under IPSAS, accounts receivable from indicative contributions are recognized net of a provision of 50 per cent for all amounts receivable for three years and 100 per cent for all amounts receivable for four or more years.

10. **Other assets** amounting to a total of USD 16.1 million mainly consist of prepayments (USD 7.7 million) and the advances to the CDM loan scheme totalling USD 6.2 million. The main reason for the increase of USD 6.3 million relates to advances issued for COP23 in Bonn.

11. **Liabilities**. Liabilities as of 31 December 2017, totalled USD 100 million (USD 103 million as at 31 December 2016) as follows:

Table 2
Summary of liabilities as at 31 December
(Thousands of United States dollars)

	2017	*2016*
Accounts payable and accruals	11 115	4 264
Advance receipts	10 500	11 726
Employee benefit liabilities	78 635	86 628
Other liabilities	8	3
Total liabilities	**100 258**	**102 621**

12. The most significant liability is the employee benefits earned by staff members and retirees but not paid at the reporting date, primarily the liability for After Service Health Insurance (ASHI). These liabilities total USD 62.8 million, represent 63 per cent of UNFCCC's total liabilities and are explained in detail in the respective note to the financial statements. The decrease of USD 8.5 million in the overall employee benefit liabilities is mainly related to the annual service cost and significant actuarial gains on the liabilities as per the actuarial report.

13. The other significant liability, advance receipts which covers indicative contributions received in advance of the start of the year to which they are related, voluntary contribution provided by donors that contain conditions requiring the return of funds not spent in accordance with the terms of the agreement as well as fees received but not yet earned. The balance represents the portion of the contribution at 31 December that has not been recognized as revenue since it has not been earned by UNFCCC by performing the services covered by the agreement.

14. With significant service delivery at the end of 2017 due to the COP in Bonn, the corresponding level of accounts payable/accrual as increased compared to 31 December 2016.

15. **Net assets**. The movement in net assets during the year shows an increase of USD 7 million from USD 123 million in 2016 to USD 130 million at the end of 2017 due to the actuarial gains of 16.6 million and an operating loss of USD 9.7 million. Net assets include the operating reserves which amount to USD 49.0 million at the reporting date.

Core budget

16. The Conference of the Parties approved a Core expenditure budget for the 2016–17 financial period, amounting to EUR 54.6 million. The approved budget for the International Transaction Log for the 2016–17 financial period amounted to EUR 5.4 million.

17. As at 31 Dec 2017, the core budget showed for 2017 an implementation rate of 94 per cent. While some programmes showed minor over- or under-expenditure, the expenses are in line with the overall approved budget.

18. The regular budget as well as the budget for the international transaction log continues to be prepared on a modified cash basis in accordance with the UN Financial Regulations. The overall budgetary results for the second 12 months of the 2016–17 financial period are summarized in Statement V-A to V-C. The differences between the net results on the IPSAS (full accrual) basis and those in accordance with the adopted budget are explained in the respective note to the financial statements.

United Nations Framework Convention on Climate Change

Chapter V

Financial statements for the year 2017

Statement I: Statement of Financial Position as at 31 December 2017

(Thousands of United States dollars)

	Note	*2017*	*2016*
ASSETS			
Current Assets			
Cash and cash equivalents	5	14 194	55 869
Short-term investments	5	141 513	98 981
Indicative contributions receivable	6	5 537	6 074
Voluntary contributions receivable	6	4 014	2 629
Other receivables	6	1 730	939
Other current assets	7	16 104	9 782
Total current assets		**183 093**	**174 274**
Non-current assets			
Voluntary contributions receivable	6	970	1 211
Long-term investments	5	44 608	47 933
Property, plant and equipment	8	365	342
Intangible assets	9	1 355	1 819
Total non-current assets		**47 298**	**51 305**
TOTAL ASSETS		**230 391**	**225 579**
LIABILITIES			
Current Liabilities			
Payables and accruals	10	11 115	4 264
Advance receipts	11	10 500	11 726
Employee benefits	12	2 679	2 067
Other current liabilities	14	8	3
Total current liabilities		**24 301**	**18 060**
Non-current liabilities			
Employee benefits	12	75 957	84 561
Total non-current liabilities		**75 957**	**84 561**
TOTAL LIABILITIES		**100 258**	**102 621**
NET ASSETS			
Accumulated surpluses/(deficits)		81 096	74 483
Reserves	17	49 038	48 475
TOTAL NET ASSETS		**130 133**	**122 958**
TOTAL LIABILITIES AND NET ASSETS/EQUITY		**230 391**	**225 579**

Note: The accompanying notes form an integral part of these financial statements.

United Nations Framework Convention on Climate Change

Statement II: Statement of Financial Performance for the year ended 31 December 2017

(Thousands of United States dollars)

	Note	*2017*	*2016*
REVENUE	15		
Indicative contributions		30 522	31 884
Voluntary contributions		40 227	27 304
CDM and JI service fees		8 578	10 834
Interest Revenue		2 715	2 342
Gain on foreign exchange*		3 304	0
Other/miscellaneous revenue		353	333
TOTAL REVENUE		**85 698**	**72 697**
EXPENSES	16		
Personnel expenditure		55 444	54 410
Travel		9 331	7 970
Contractual services		25 623	16 691
Operating expenses		1 869	1 460
Other expenses		2 219	2 024
Depreciation of equipment		251	282
Amortization of intangible assets		464	355
Return/transfer of donor funding		153	6 076
Loss on foreign exchange		0	630
TOTAL EXPENSES		**95 354**	**89 897**
SURPLUS/(DEFICIT) FOR THE PERIOD		**(9 656)**	**(17 200)**

Note The accompanying notes form an integral part of these financial statements.

United Nations Framework Convention on Climate Change

Statement III: Statement of Changes in Net Assets for the year ended 31 December 2017

(Thousands of United States dollars)

	Accumulated Surplus	*Reserves*	*Total Net Assets*
Balance as at 01 January 2017	74 483	48 475	122 958
Surplus/(Deficit) for the current period	(9 656)		(9 656)
Adjustment Appendix D reserve		192	192
Actuarial gains (losses) on employee benefits liabilities	16 638		16 638
Adjustment to operating reverses amounts against accumulated surplus	(370)	370	0
Balance as at 31 December 2017	**81 096**	**49 038**	**130 133**

Note: The accompanying notes form an integral part of these financial statements.

United Nations Framework Convention on Climate Change

Statement IV: Cash Flow Statement for the year ended 31 December 2017

(Thousands of United States dollars)

	2017	*2016*
Cash flows from operating activities		
Surplus/(deficit) for the period	(9 656)	(17 200)
Depreciation expense	251	282
Amortization of intangible assets	464	355
(Increase)/decrease in accounts receivable	(1 399)	(1 723)
(Increase)/decrease in other assets	(6 321)	2 029
Increase/(decrease) in payables and accruals	6 850	(2 122)
Increase/(decrease) in advance receipts	(1 226)	5 544
Increase/(decrease) in employee benefit liabilities	8 838	6 930
Increase/(decrease) in other liabilities	5	(3 314)
Net cash flows from operating activities	**(2 195)**	**(9 219)**
Cash flows from investing activities		
(Increase)/decrease in equipment	(273)	0
(Increase)/decrease in intangible assets	0	(330)
(Increase)/Decrease in short-term investments	(42 532)	6 795
(Increase)/Decrease in long-term investments	3 324	24 572
Net cash flows from investing activities	**(39 481)**	**31 037**
Cash flows from financing activities		
Net increase/(decrease) in cash and cash equivalents	**(41 675)**	**21 819**
Cash and cash equivalents at the beginning of the year	55 869	34 050
Cash and cash equivalents at the end of the year	14 194	55 869
Overall increase/(decrease)	(41 675)	21 819

Note: The accompanying notes form an integral part of these financial statements.

United Nations Framework Convention on Climate Change

Statements V: Statements of Comparison of Budgets to Actual Amounts

A. Budget to Actual Comparison Core Budget for the year 2017

2017	Original Budget (EUR)	Final Budget (EUR)	Actual (EUR)	Difference (EUR)	Final Budget (USD)	Actual (USD)	Difference (USD)
Executive Direction and Management	2 210 862	2 375 162	2 512 074	(136 912)	2 484 479	2 817 571	(333 092)
Mitigation, Data and Analysis	7 611 688	7 350 778	6 934 402	416 376	7 689 098	7 782 512	(93 414)
Finance, Technology and Capacity-Building	2 732 627	2 631 191	2 341 961	289 230	2 752 292	2 641 511	110 781
Adaptation	2 336 252	2 346 499	2 293 719	52 780	2 454 497	2 565 177	(110 680)
Sustainable Development Mechanisms	369 990	379 785	381 137	(1 352)	397 265	430 080	(32 815)
Legal Affairs	1 304 455	1 136 682	1 016 169	120 513	1 188 998	1 150 865	38 133
Conference Affairs Services	1 633 142	1 769 560	1 766 228	3 332	1 851 004	1 976 266	(125 262)
Communication and Outreach	1 478 722	1 754 349	1 861 430	(107 081)	1 835 093	2 106 365	(271 272)
Information Technology Services	2 690 771	2 624 502	2 432 642	191 860	2 745 295	2 750 787	(5 492)
Administrative Services	1 829 358	1 829 358	1 253 276	576 082	1 913 554	1 427 500	486 054
Total	**24 197 867**	**24 197 867**	**22 793 038**	**1 404 828**	**25 311 575**	**25 648 634**	**(337 059)**
Programme support costs (overheads)	3 145 723	3 145 723	2 963 095	182 628	3 290 505	3 326 271	(35 767)
Adjustment to working capital reserve	(264)	(264)					
Grand TOTAL	**27 343 326**	**27 343 326**	**25 756 133**	**1 587 456**	**25 311 575**	**28 974 905**	**(372 825)**
Income from Indicative Contributions	26 576 388	26 576 388				27 799 569	
Net result (budgetary)						(1 175 336)	

2016-2017	Original Budget (EUR)	Final Budget (EUR)	Actual (EUR)	Difference (EUR)	Final Budget (USD)	Actual (USD)	Difference (USD)
Executive Direction and Management	4 461 724	4 558 725	4 619 770	- 61 046	5 053 257	5 138 541	- 191 412
Mitigation, Data and Analysis	15 223 376	14 962 467	14 595 734	366 733	15 731 525	15 834 308	182 676
Finance, Technology and Capacity-Building	5 464 887	5 408 821	4 829 886	578 935	5 680 294	5 332 873	408 763
Adaptation	4 671 964	4 682 212	4 667 225	14 987	5 021 193	5 165 377	- 155 396
Sustainable Development Mechanisms	776 240	786 035	786 493	- 459	852 456	890 234	- 48 494
Legal Affairs	2 608 910	2 553 807	2 143 907	409 900	2 555 904	2 336 572	279 620
Conference Affairs Services	3 324 279	3 460 698	3 233 479	227 219	3 850 518	3 709 464	- 8 201
Communication and Outreach	3 069 899	3 254 786	3 479 778	- 224 992	3 778 270	4 084 309	- 508 322
Information Technology Services	5 565 551	5 499 282	5 245 475	253 807	5 818 165	5 787 872	102 797
Administrative Services	3 231 716	3 231 716	3 334 143	- 102 427	3 447 863	3 247 239	200 624
Total	**48 398 547**	**48 398 545**	**46 935 890**	**1 462 657**	**51 789 444**	**51 526 789**	**262 655**
Programme support costs (overheads)	6 291 811	6 291 811	6 101 666	190 145	6 732 628	6 752 363	- 19 736
Adjustment to working capital reserve	(41 873)	(41 873)					
Grand TOTAL	**54 648 485**	**54 648 486**	**53 037 556**	**1 652 802**	**58 522 072**	**58 279 152**	**242 920**
Income from Indicative Contributions	53 152 776	53 152 776				56 835 961	
Net result (budgetary)						(1 443 191)	

United Nations Framework Convention on Climate Change

B. Budget to Actual Comparison International Transaction Log Budget for the year 2017

2017	Original and Final Budget (EUR)	Actual (EUR)	Difference (EUR)	Original and Final Budget (USD)	Actual (USD)	Difference (USD)
Staff costs	783 710	731 463	52 247	819 780	820 559	(779)
Consultants	62 125		62 125	64 984		64 984
Travel of staff	20 000	25 421	(5 421)	20 921	28 337	(7 416)
Experts and expert groups	10 000	1 436	8 564	10 460	1 798	8 662
Training	10 000	11 411	(1 411)	10 460	13 520	(3 060)
General operating expenses	1 401 023	1 563 902	(162 879)	1 465 505	1 843 371	(377 866)
Contributions to common services	83 500	111 055	(27 555)	87 343	124 055	(36 712)
TOTAL	**2 370 358**	**2 444 688**	**(74 330)**	**2 479 454**	**2 831 640**	**(352 186)**
Programme support costs (overheads)	308 147	317 809	(9 662)	322 329	367 966	(45 637)
Adjustment to working capital reserve	(2 827)					
Grant TOTAL	**2 675 678**	**2 762 497**	**(83 992)**	**2 801 783**	**3 199 606**	**(397 823)**
Income from Indicative Contributions	2 602 275				2 722 045	
Net result (budgetary)					**(477 561)**	

2016-2017	Original and Final Budget (EUR)	Actual (EUR)	Difference (EUR)	Original and Final Budget (USD)	Actual (USD)	Difference (USD)
Staff costs	1 557 420	1 470 830	86 590	1 666 290	1 641 099	25 191
Temporary assistance and overtime	10 000	-	10 000	10 941	-	10 941
Consultants	124 250	50 959	73 291	132 955	56 641	76 314
Contractors	1 347 023	919 538	427 485	1 473 767	1 011 642	462 125
Travel of staff	40 000	29 252	10 748	42 802	32 616	10 186
Experts and expert groups	20 000	5 790	14 210	21 401	6 664	14 737
Training	20 000	11 469	8 531	21 401	13 585	7 816
General operating expenses	1 453 023	1 564 351	(111 328)	1 522 398	1 843 875	(321 477)
Contributions to common services	167 000	238 709	(71 709)	178 700	265 966	(87 266)
TOTAL	**4 738 716**	**4 290 898**	**447 818**	**5 070 655**	**4 872 088**	**198 567**
Programme support costs (overheads)	616 294	557 817	58 477	659 185	618 235	40 950
Adjustment to working capital reserve	(5 654)					
Grant TOTAL	**5 349 356**	**4 848 715**	**506 295**	**5 729 840**	**5 490 323**	**239 517**
Income from Indicative Contributions	5 273 126				5 569 173	
Net result (budgetary)					**78 850**	

United Nations Framework Convention on Climate Change

C. Budget to Actual Comparison Conference Services Contingency Budget for the year 2017

2017	*Original and Final Budget (EUR)*	*Actual (EUR)*	*Difference (EUR)*	*Original and Final Budget (USD)*	*Actual (USD)*	*Difference (USD)*
Object of expenditure						
Interpretation	1 295 900		1 295 900	1 355 544		1 355 544
Documentation						
Translation	2 167 700		2 167 700	2 267 700		2 267 469
Reproduction and distribution	741 500		741 500	775 628		775 628
Meetings service support	266 900		266 900	279 184		279 184
Subtotal	**4 472 000**	**0**	**4 472 000**	**4 677 824**	**0**	**4 677 824**
Programme support costs	581 400		581 400	608 159		608 159
Working capital reserve	12 200		12 200	12 762		12 762
Total	**5 065 600**	**0**	**5 065 600**	**5 298 745**	**0**	**5 298 745**

United Nations Framework Convention on Climate Change

Notes to the Financial Statements

Note 1: The Reporting Entity

1. The permanent secretariat of the United Nations Convention on Climate Change (UNFCCC) was established in January 1996 for the following purposes:

(a) To make arrangements for sessions of the Conference of the Parties and its subsidiary bodies established under the Convention, the Kyoto Protocol and the Paris Agreement and to provide them with services as required;

(b) To compile and transmit reports submitted to it;

(c) To facilitate assistance to Parties particularly developing country Parties on request in the compilation and communication of information required in accordance with the provisions of the Convention, the Kyoto Protocol and the Paris Agreement;

(d) To prepare reports on its activities and present them to the Conference of the Parties;

(e) To ensure the necessary coordination with the secretariats of other relevant international bodies;

(f) To enter, under the overall guidance of the Conference of the Parties, into such administrative and contractual arrangements as may be required for the effective discharge of its functions;

(g) To perform other secretariat functions specified in the Convention and in any of its protocols; and

(h) To undertake any other functions as may be determined by the Conference of the Parties

2. UNFCCC is governed by the following constituent bodies:

(a) **The Conference of the Parties (COP)** is the supreme decision-making body of the Convention. All States that are Parties to the Convention are represented at the COP, at which they review the implementation of the Convention and any other legal instruments that the COP adopts and take decisions necessary to promote the effective implementation of the Convention, including institutional and administrative arrangements.

(b) **The Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP)**. All States that are Parties to the Kyoto Protocol are represented at the CMP, while States that are not Parties participate as observers. The CMP reviews the implementation of the Kyoto Protocol and takes decisions to promote its effective implementation.

(c) **The Subsidiary Body for Implementation (SBI)** is one of two permanent subsidiary bodies to the Convention established by the COP/CMP. It supports the work of the COP and the CMP through the assessment and review of the effective implementation of the Convention and its Kyoto Protocol. A particularly important task in this respect is to examine the information in the national communications and emission inventories submitted by Parties in order to assess the Convention's overall effectiveness. The SBI reviews the financial assistance given to non-Annex I Parties to help them implement their Convention commitments, and provides advice to the COP on guidance to the financial mechanism (operated by the Global Environment Facility - GEF). The SBI also advises the COP on budgetary and administrative matters.

(d) The Conference of the Parties, the supreme body of the Convention, shall serve as **the meeting of the Parties to the Paris Agreement (CMA).** All States that are Parties to the Paris Agreement are represented at the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA), while States that are not Parties participate as observers. The CMA oversees the implementation of the Paris Agreement and takes decisions to promote its effective implementation.

(e) **The Bureau of the COP and CMP** supports the COP, CMP and the CMA through the provision of advice and guidance regarding the on-going work under the Convention and its Kyoto Protocol, the organization of their sessions and the operation of the secretariat, especially at times when the COP and the CMP are not in session. The Bureau is elected from representatives of Parties nominated by each of the five United Nations regional groups and small island developing States. The Bureau is mainly responsible for questions of process management. It assists the President in the performance of his or her duties by providing advice and by helping with various tasks (e.g. members undertake consultations on behalf of the President). The Bureau is responsible for examining the credentials of Parties, reviewing the list of intergovernmental and non-governmental organizations, seeking accreditation and submitting a report thereon to the Conference.

3. UNFCCC is financed by indicative contributions paid by Parties to the Convention, fees derived from services provided by the Organization and voluntary contributions from Parties to the Convention and the Kyoto Protocol and other donors.

4. The Organization enjoys privileges and immunities as granted under the 1947 Convention on Privileges and Immunities of the United Nations and the 1996 Headquarters agreement with the Federal Government of Germany, notably being exempt from most forms of direct and indirect taxation.

Note 2: Basis of Preparation

5. The financial statements of the UNFCCC have been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards (IPSAS) using the historic cost convention. The statements are prepared on a going concern basis given the approval by the Conference of Parties of the Programme Budget appropriations for the Biennium 2016–2017, the historical trend of collection of indicative and voluntary contributions over the past years and that the Conference of Parties has not made any decision to cease operation of UNFCCC.

6. In accordance with IPSAS, the 2017 financial statements are presented on an annual basis covering the period 1 January 2017 to 31 December 2017. These financial statements are certified by the Executive Secretary. The financial statements are submitted to the United Nations Board of Auditors on 31 March 2018. Sequentially, the reports of the Board of Auditors together with the audited financial statements are submitted to the Conference of the Parties.

7. The Cash Flow Statement is prepared using the indirect method.

8. Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

2.1 Functional and Presentation Currency

9. The financial statements are presented in United States dollars, which is the functional and presentation currency of UNFCCC.

2.2 Foreign Currency Translation

10. Transactions in currencies other than United States dollar are translated into United States dollar at the prevailing United Nations Operations Rates of Exchange (UNORE) which represents the prevailing rate at the time of transaction. Assets and liabilities in currencies

other than United States dollar are translated into United States dollar at the UNORE year-end closing rate. Resulting gains and losses are accounted for in the Statements of Financial Performance.

11. The Core budget and the budget for the International Transaction Log are approved and assessed in euros. The contingency budget for conference services of UNFCCC is approved by the Conference of the Parties (COP). However, funds are not accessed unless required. Information on the Statements of Budget to Actual Comparisons for each budget are presented on both euros and United States dollars.

2.3 Materiality and the use of judgement and estimates

12. Materiality is central to the UNFCCC financial statements. The financial statements necessarily include amounts based on judgments, estimates and assumptions by management. Actual results may differ from these estimates. Changes in estimates are reflected in the period in which they become known. Accruals, equipment depreciation and employee benefit liabilities are the most significant items for which estimates are utilized.

Note 3: Significant Accounting Policies

3.1 Cash and Cash Equivalents

13. Cash and Cash equivalents are held at fair value and comprise cash on hand, cash at banks, money market and short-term deposits. Investment revenue is recognized as it accrues taking into account the effective yield.

3.2 Financial Instruments

14. Financial instruments are initially measured at fair value. Subsequent measurement of all financial instruments is at fair value except for accounts receivable and accounts payable, which are measured at amortized cost using the effective interest method except for indicative and voluntary contributions balances which are recognized at nominal value (proxy to fair value at the time of recognition).

15. Financial instruments are recognized when UNFCCC becomes a party to the contractual provisions of the instrument until the rights to receive cash flows from those assets have expired or have been transferred and UNFCCC has transferred substantially all the risks and rewards of ownership.

16. The Main cash pool comprises participating entity shares of cash and term deposits, short-term and long-term investments and accrual of investment income, all of which are managed by the UN Treasury. UNFCCC's share of the cash pool is disclosed in the notes to the financial statements and on the Statement of Financial Position categorized as cash and cash equivalents, short-term and long-term investments.

17. Gains or losses arising from changes in the fair value of financial instruments are included within the statement of financial performance in the period in which they arise. Gains or losses arising from a change in the fair value of the financial assets held in the Main Cash Pool are presented in the Statement of Financial Performance in the period in which they arise as finance costs if net loss or investment revenue if net gain.

18. Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. UNFCCC's receivables comprise indicative contributions receivable from member countries and other accounts receivable recognized on the Statement of Financial Position. Receivables are measured at amortized cost taking into account a provision for impairment.

3.3 Inventories

19. UNFCCC does not maintain an inventory of tangible assets that are held for resale or consumed in the distribution in rendering of services. Should inventories be recognized in

future financial statements, these inventories would be recognized at the lower of cost and net realizable value or at the lower of cost and current replacement cost.

3.4 Property, Plant and Equipment

20. Equipment with a cost above USD 5,000 is stated at historical cost less accumulated depreciation and any impairment losses. UNFCCC is deemed to control equipment if it can use or otherwise benefit from the asset in the pursuit of its objectives and if UNFCCC can exclude or regulate the access of third parties to the asset.

21. Depreciation is calculated over their estimated useful life of equipment using the straight-line method.

Table 1
The estimated useful life for equipment classes

Class of equipment	*Estimated useful live (in years)*
Computer equipment	5
Communication and audio equipment	5
Furniture and fittings	10
Vehicles	10
Leasehold improvements	10 (or lease term, whichever is shorter)

3.5 Intangible Assets

22. Intangible assets are valued at historical cost less accumulated amortization and any impairment losses. Intangible assets acquired externally are capitalised if their costs exceed the threshold of USD 5,000. Internally developed software is capitalized if its cost exceeded a threshold of USD 100,000 excluding research and maintenance costs and including directly attributable costs such as staff assigned full time to a development projects, subcontractors and consultants.

23. Amortization is provided over the estimated useful life using the straight-line method.

Table 2
The estimated useful lives for intangible asset classes

Class of intangible assets	*Estimated useful life (in years)*
Software acquired externally	3
Internally developed software	3–5
Copyrights	Set 8 years or period of copyright, whichever is shorter

24. Impairment is assessed at each reporting date for all intangible assets based on indications that an asset may be impaired and any impairment losses are recognized in the Statement of Financial Performance.

3.6 Employee Benefits

25. UNFCCC provides the following employee benefits:

(a) Short Term employee benefits comprise first-time employee benefits (assignment grants), regular monthly benefits (wages, salaries, allowances), compensated absences (annual and paid sick leave, maternity/paternity leave) and other short-term benefits

(education grant, reimbursement of taxes) which fall due wholly within twelve months after the end of the accounting period in which employees render the related service;

(b) Post-Employment benefits including ASHI, repatriation grant, separation related travel and shipping costs and death benefit;

(c) Other Long Term employee benefits including accumulated annual leave payable on separation; and

(d) Termination benefits include indemnities for voluntary redundancy payable once a plan has been formally approved.

26. The liability recognized for post-employment benefits is the present value of the defined benefit obligations at the reporting date. An independent actuary using the projected unit credit method calculates the defined benefit obligations. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high grade corporate bonds with maturity dates approximating those of the individual plans.

27. Employee benefits including payments to staff members on separation from service such as repatriation grant, accrued annual leave, repatriation travel and removal on repatriation are expensed on an accrual basis.

28. Actuarial gains and losses related to post-employment benefits for after service health insurance are recognised in the period in which they occur on the statement of changes in net assets as a separate item in net assets/equity.

29. UNFCCC is a member organization participating in the United Nations Joint Staff Pension Fund (the UNJSPF or the Fund), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits to employees. The Fund is a funded, multi-employer defined benefit plan. As specified by Article 3(b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

30. The Fund exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and costs to individual organizations participating in the plan. UNFCCC and the UNJSPF, in line with the other participating organizations in the Fund, are not in a position to identify UNFCCC's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence UNFCCC has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 25. UNFCCC's contributions to the Fund during the financial period are recognized as expenses in the Statement of Financial Performance.

3.7 Provisions

31. Provision are made for future liabilities and charges where UNFCCC has a present legal or constructive obligation as a result of past events and is probable that UNFCCC will be required to settle the obligation, and the value can be reliably measured.

3.8 Contingent liabilities and contingent assets

32. Contingent liabilities where their existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of UNFCCC or where the value cannot be reliably estimated are disclosed in the Notes to the financial statements. Contingent liabilities are assessed continually to determine whether an

outflow of resources has become probable. If an outflow becomes probable, a provision is recognized in the financial statements in the period in which probability occurs.

3.9 Leases

33. Leases, where the lessor retains a significant portion of the risks and rewards inherent in ownership, are classified as operating leases. Payments made under operating leases are charged on the Statement of Financial Performance as an expense on a straight-line basis over the period of the lease.

3.10 Non-exchange revenue and receivables

34. **Indicative contributions** to the Core budget and to the Trust Fund for the International Transaction Log from Parties to the Convention are recognised at the beginning of the year to which the assessment relates. The revenue amount is determined based on the approved budgets and the scale of assessment approved by the General Assembly as adopted by the Conference of the Parties.

35. **Voluntary contributions** are recognised upon the signing of a binding agreement with the donor. Revenue is recognised immediately if no condition is attached. If conditions are attached, including a requirement that funds not utilized in accordance with the agreement must be returned to the contributing entity, revenue is recognised only upon satisfying the conditions. Until such conditions are met a liability (deferred revenue) is recognised. Voluntary contributions such as pledges and other promised donations which are not supported by binding agreements are considered contingent assets and are recognized as revenue when received and disclosed in the Notes to the financial statements if receipt is considered probable.

36. Multi-year voluntary conditional **contributions** due in future financial periods are recognized as receivables on the signing of the agreement along with a liability (deferred revenue) until the conditions are met.

37. **Goods in kind** are recognised at their fair value, measured as of the date the donated assets are acquired.

38. Receivables are stated at amortized cost less allowances for estimated irrecoverable amounts.

3.11 Exchange revenue

39. Revenue from the fees charged in connection with the Clean Development Mechanism (CDM) and the Joint Implementation Determination (JI) is recognized upon completion of the underlying service for which the fee has been charged. A liability is established covering the estimated amount of fees reimbursable to the applicant. Interest income is recognized on a time proportion basis as it accrues, taking into account the effective yield.

3.12 Expenses

40. Expenses arising from the purchase of goods and services are recognized when the services or goods have been received and accepted by UNFCCC. Service are considered received on the date when the service is certified as rendered. For some service contracts this process may occur in stages.

3.13 Segment reporting

41. UNFCCC is a single purpose entity with a mandate to assist the signatories of the UN Framework Convention on Climate Change to limit average global temperature increases and the resulting climate change, and to cope with whatever impacts are inevitable in part through enforcing the legally binding emission reduction targets established in the Kyoto Protocol. Its operations, therefore, consist of a single segment. However, to provide additional

information for use to senior management and Parties to the Convention and Kyoto Protocol, supplemental disclosures are prepared on a fund accounting basis, showing at the end of the period the consolidated position of all UNFCCC funds. A fund is a self -balancing accounting entity established to account for the transactions of a specified purpose or objective. Fund balances represent the accumulated residual of revenue and expenses.

42. UNFCCC classifies all projects, operations and fund activities into ten funds and special accounts:

(a) Trust fund for the Core Budget of UNFCCC financed from indicative contributions (or general purpose contributions from donors);

(b) Trust fund for Supplementary Activities;

(c) Trust fund for the Participation in the UNFCCC process financed from voluntary contributions;

(d) Trust fund for the Clean Development Mechanism financed from fees charged for registration of projects and issuance of certificates;

(e) Trust fund for the International Transactions Log financed from indicative contributions (or general purpose contributions from donors);

(f) Trust fund for the Special Annual Contribution from the Government of Germany financed from a voluntary contribution from the government in which the UNFCCC headquarters is located;

(g) Special account for Programme Support Costs financed from charges made to the activities financed from indicative and voluntary contributions as well as fee financed activities;

(h) Special account for conferences and other recoverable costs financed from voluntary contributions; and

(i) Cost recovery fund;

(j) End of service and post employee benefits fund not currently funded.

43. Transactions occurring between funds are accounted for at cost and eliminated on consolidation.

44. UNFCCC reports on the transactions of each fund during the financial period, and the balances held at the end of the period.

3.14 Budget comparison

45. UNFCCC's budget is prepared on a modified cash basis and the financial statements are prepared on an accrual basis. The budget is adopted on a biennial basis and presented in annual estimates in the financial statements. Unexpended balances at the end of the first year of the biennium are carried forward and added to the annual budget estimate for the second year of the biennium.

46. Statements V-A to V-C, Comparison of budget and Actual amounts, compare the final budget to actual amounts calculated on the same basis as the corresponding approved budget.

47. As the basis used to prepare the budget and financial statements differ, Note 20 provides reconciliation between the actual amounts presented in statement V-A to V-C and the actual amounts presented on the Statement of Financial Performance.

48. The COP approves the biennial Core budget and the contingent budget for Conference Services. The CMP approves the budget for the International Transaction Log. Budgets may be subsequently amended by the COP or CMP, as applicable, or through the exercise of delegated authority.

Note 4: Financial Risks

4.1 Financial risk factors

49. UNFCCC's operations may expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

4.2 Market risk

Foreign exchange risk

50. UNFCCC operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the euro. Foreign exchange risk arises from operating revenue and expenses and recognized assets and liabilities. Management requires that the Organization manage its currency risk against its functional currency by structuring contributions from its owner organizations and its technical cooperation project donors to correspond to the foreign currency needed for operational purposes.

51. As of 31 December 2017, if the US dollar had weakened/strengthened by 5 per cent against the euro with all other variables held constant, the impact on net assets would have been USD 0.8 million higher/lower due to the change in the asset value of receivables denominated in euro.

Price risk

52. The Organization may be exposed to price risk because of investments held in the Main cash pool which are classified in the Statement of Financial Position at fair value through surplus or deficit. The share of any realized loss or gain on the Organization's holdings in the Main cash pool is recognized in surplus or deficit.

4.3 Credit risk

53. Credit risk refers to the risk that counterparty to a financial instrument will default on its contractual obligations resulting in a financial loss to the Institute. The carrying value of financial assets equates to the maximum exposure to credit risk as at balance date. The Organization does not hold any collateral as security.

Other credit risk disclosure

54. Voluntary contributions from governments representing the member countries of the Organization comprise the majority of the Organization's voluntary contributions receivable. Credit risk is considered minimal since most of its donors are sovereign entities.

4.4 Liquidity risk

55. Cash flow forecasting is performed by the Organization in conjunction with the United Nations Office at Geneva (UNOG) which monitors rolling forecasts of liquidity requirements to ensure it has sufficient cash to meet operational needs. There are no restrictions on the amount that UNFCCC may withdraw at any time after providing the UN Treasury with several days' notice.

4.5 Cash Pools

56. In addition to directly held cash and cash equivalents and investments, the United Nations Framework Convention on Climate Change ("UNFCCC") participates in the United

Nations Treasury main pool. The main pool comprises of operational bank account balances in a number of currencies and investments in United States dollars.

57. Pooling the funds has a positive effect on overall investment performance and risk, because of economies of scale, and by the ability to spread yield curve exposures across a range of maturities. The allocation of cash pool assets (cash and cash equivalents, short-term investments and long-term investments) and revenue is based on each participating entity's principal balance.

58. As at 31 December 2017, UNFCCC participated in the main pool that held total assets of $8,086.5 million (2016: $9,033.6 million), of which $202.7 million was due to the Organization (2016: $203.7 million), and its share of revenue from the main pool was $2.6 million (2016: $1.6 million).

Table 3
Summary of assets and liabilities of the Cash Pools as at 31 December 2017
(Thousands of United States dollars)

	Main pool
Fair value through the surplus or deficit	
Short-term investments	5 645 952
Long-term investments	1 779 739
Total fair value through the surplus or deficit investments	**7 425 691**
Loans and receivables	
Cash and cash equivalents	636 711
Accrued investment revenue	24 098
Total loans and receivables	**660 809**
Total carrying amount of financial assets	**8 086 500**
Cash pool liabilities	
Payable to UNFCCC	202 684
Payable to other cash pool participants	7 883 816
Total liabilities	**8 086 500**
Net assets	–

Table 4
Summary of net income and expenses of the Cash Pools for the year ended 31 December 2017
(Thousands of United States dollars)

	Main pool
Investment revenue	104 576
Unrealized gains/(losses)	874
Investment revenue from main pool	**105 450**
Foreign exchange gains/(losses)	7 824
Bank fees	(853)
Operating expenses from main pool	**6 971**
Net income from cash pools	**112 421**

Table 5
Summary of assets and liabilities of the Cash Pools as at 31 December 2016
(Thousands of United States dollars)

	Main pool
Fair value through the surplus or deficit	
Short-term investments	4 389 616
Long-term investments	2 125 718
Total fair value through the surplus or deficit investments	**6 515 334**
Loans and receivables	
Cash and cash equivalents	2 493 332

	Main pool
Accrued investment revenue	24 961
Total loans and receivables	**2 518 293**
Total carrying amount of financial assets	**9 033 627**
Cash pool liabilities	
Payable to UNFCCC	203 699
Payable to other cash pool participants	8 829 928
Total liabilities	**9 033 627**
Net assets	–

Table 6
Summary of net income and expenses of the Cash Pools for the year ended 31 December 2016
(Thousands of United States dollars)

	Main pool
Investment revenue	73 903
Unrealized gains/(losses)	(13 474)
Investment revenue from main pool	**60 429**
Foreign exchange gains/(losses)	(5 105)
Bank fees	(646)
Net income from cash pools	**54 678**

Financial risk management

59. The United Nations Treasury is responsible for investment and risk management for the Cash Pools, including conducting investment activities in accordance with the Guidelines.

60. The objective of investment management is to preserve capital and ensure sufficient liquidity to meet operating cash requirements while attaining a competitive market rate of return on each investment pool. Investment quality, safety and liquidity are emphasized over the market rate of return component of the objectives.

61. An investment committee periodically evaluates investment performance and assesses compliance with the Guidelines and makes recommendations for updates thereto.

Financial risk management: credit risk

62. The Guidelines require ongoing monitoring of issuer and counterparty credit ratings. Permissible Cash Pool investments may include, but are not restricted to, bank deposits, commercial paper, supranational securities, government agency securities and government securities with maturities of five years or less. The Cash Pools do not invest in derivative instruments such as asset-backed and mortgage-backed securities or equity products.

63. The Guidelines require that investments are not to be made in issuers whose credit ratings are below specifications, and also provide for maximum concentrations with given issuers. These requirements were met at the time the investments were made.

64. The credit ratings used for the Cash Pools are those determined by major credit-rating agencies. Standard & Poor's and Moody's and Fitch are used to rate bonds and discounted

instruments, and the Fitch viability rating is used to rate bank term deposits. At year-end, the credit ratings were as shown below.

Table 7
Credit ratings

Investments of the cash pool by credit ratings as at 31 December 2017

Main pool	*Ratings as at 31 December 2017*				*Ratings as at 31 December 2016*				
Bonds (Long term ratings)									
	AAA	**AA+/AA/AA-**	**A+**	**NR**		**AAA**	**AA+/AA/AA-**	**BBB**	**NR**
S&P	30.5%	65.5%	4.0%	-	S&P	33.6%	55.1%	5.6%	5.7%
Fitch	61.3%	30.6%		8.1%	Fitch	62.4%	28.3%		9.3%
	Aaa	**Aa1/Aa2/Aa3**				**Aaa**	**Aa1/Aa2/Aa3**		
Moody's	55.3%	44.7%			Moody's	50.3%	49.7%		
Commercial papers (Short term ratings)									
	A-1					**A-1**			
S&P	100.0%				S&P	100.0%			
	F1					**F1**			
Fitch	100.0%				Fitch	100.0%			
	P-1					**P-1**			
Moody's	100.0%				Moody's	100.0%			
Reverse repurchase agreement (Short term ratings)									
	A-1+					**A-1+**			
S&P	100.0%				**S&P**	100.0%			
	F1+					**F1+**			
Fitch	100.0%				**Fitch**	100.0%			
	P-1					**P-1**			
Moody's	100.0%				**Moody's**	100.0%			
Term deposits (Fitch viability ratings)									
	aaa	**aa/aa-**	**a+/a**			**aaa**	**aa/aa-**	**a+/a**	
Fitch	-	44.2%	55.8%		Fitch	-	48.1%	51.9%	

65. The United Nations Treasury actively monitors credit ratings and, given that the Organization has invested only in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations, except for any impaired investments.

Financial risk management: liquidity risk

66. The main pool is exposed to liquidity risk associated with the requirement of participants to make withdrawals on short notice. It maintains sufficient cash and marketable securities to meet participants' commitments as and when they fall due. The major portion of cash and cash equivalents and investments are available within a day's notice to support operational requirements. The main pool liquidity risk is therefore considered to be low.

Financial risk management: interest rate risk

67. The main pool comprises the Organization's main exposure to interest rate risk with fixed-rate cash and cash equivalents and investments being interest-bearing financial instruments. As at the reporting date, the main pool had invested primarily in securities with shorter terms to maturity, with the maximum being less than four years (2016: five years). The average duration of the main pool was 0.61 years (2016: 0.71 years), which is considered to be an indicator of low risk.

Cash Pool interest rate risk sensitivity analysis

68. This analysis shows how the fair value of the main pool as at the reporting date would increase or decrease should the overall yield curve shift in response to changes in interest

rates. The investments, being accounted for at fair value through surplus or deficit, the change in fair value represents the increase or decrease in the surplus or deficit and net assets. The impact of a shift up or down of up to 200 basis points in the yield curve is shown (100 basis points equals 1 per cent). The basis point shifts are illustrative.

Table 8
Cash Pools interest rate risk sensitivity analysis as at 31 December 2017

Shift in yield curve (basis points)	*-200*	*-150*	*-100*	*-50*	*0*	*+50*	*+100*	*+150*	*+200*
Increase/(decrease) in fair value (Millions of United States dollars):									
Main pool total	95.47	71.60	47.73	23.86	–	(23.86)	(47.72)	(71.57)	(95.42)

Table 9
Cash Pools interest rate risk sensitivity analysis as at 31 December 2016

Shift in yield curve (basis points)	*-200*	*-150*	*-100*	*-50*	*0*	*+50*	*+100*	*+150*	*+200*
Increase/(decrease) in fair value (Millions of United States dollars):									
Main pool total	124.35	93.26	62.17	31.08	–	(31.08)	(62.14)	(93.21)	(124.27)

Other market price risk

69. The main pool is not exposed to significant other price risks because it does not sell short, borrow securities or purchase securities on margin, which limits the potential loss of capital.

Accounting classifications and fair value – Cash Pool

70. All investments are reported at fair value through surplus and deficit. Cash and cash equivalents carried at nominal value are deemed to be an approximation of fair value.

71. The levels are defined as:

(a) Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

(b) Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (i.e. derived from prices).

(c) Level 3: Inputs for the asset or liabilities that are not based on observable market data (that is, unobservable inputs).

72. The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date and is determined by the independent custodian based on valuation of securities sourced from third-parties. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held in the main pool is the current bid price.

73. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques which maximise the use of observable market data. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2.

74 The following fair value hierarchy presents the cash pool assets that are measured at fair value at the reporting date. There were no Level 3 financial assets nor any liabilities carried at fair value or any significant transfers of financial assets between fair value hierarchy classifications.

Table 10
Fair value hierarchy as at 31 December: Cash Pools
(Thousands of United States dollars)

	31 December 2017			*31 December 2016*		
	Level 1	*Level 2*	*Total*	*Level 1*	*Level 2*	*Total*
Financial assets at fair value through surplus or deficit						
Bonds - Corporates	355 262	-	355 262	697 676	-	697 676
Bonds - Non-United States agencies	1 190 050	-	1 190 050	1 903 557	-	1 903 557
Bonds - Non-United States sovereigns	124 892	-	124 892	124 854	-	124 854
Bonds - Supranational	173 275	-	173 275	213 224	-	213 224
Bonds - United States treasuries	610 267	-	610 267	586 739	-	586 739
Main pool - Commercial papers	671 945	-	671 945	149 285	-	149 284
Main pool - Term deposits	–	4 300 000	4 300 000	–	2 840 000	2 840 000
Main pool total	**3 125 691**	**4 300 000**	**7 425 691**	**3 675 334**	**2 840 000**	**6 515 334**

Table 11
Summary Financial Instruments
(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Cash and cash equivalents	14 194	55 869
Short-term investments	141 513	98 981
Long-term investments	44 608	47 933
Accounts receivable	12 251	10 853
Accounts payable	(2 862)	(1 463)
Total financial instruments	**209 704**	**212 173**

Table 12
Carrying amounts of the contributions receivable
(Thousands of United States dollars)

	Indicative Contributions	*Voluntary Contributions*
EUR and other currencies	6 579	3 732
USD	220	1 252
Total contributions receivable as at 31 December 2017	**6 799**	**4 984**

Table 13
Indicative contributions past due as at 31 December 2017
(Thousands of United States dollars)

Indicative contributions past due	*Indicative Contributions*
Up to 1 year	1 954
1 to 2 year	1 995

2 to 3 years	1 251
Above 3 years	1 599
Total indicative contributions past due as at 31 December 2017	**6 799**

Table 14
Provision for impaired indicative receivables as at 31 December 2017
(Thousands of United States dollars)

Provision for impaired receivables	*Indicative Contributions*
As at 1 Jan 2017	996
Less receivables written off during the year	0
Increase in provision during 2017	265
Total as at 31 December 2017	**1 261**

Note 5: Cash and cash equivalents, short-term and long-term investments

Table 15
Cash and cash equivalents
(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Cash held in cash pools	14 194	55 869
Total cash and cash equivalents	**14 194**	**55 869**

Table 16
Breakdown of short-term and long-term investments
(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Short-term investments (cash pool)	141 513	98 981
Long-term investments (cash pool)	44 608	47 933
Total investments	**186 121**	**146 914**

75 UNFCCC cash forms part of a cash pools that are maintained and managed by the UN Treasury. The cash pools comprise UNFCCC's participating share of cash and term deposits, short term and long term investments and accrual of investment income, all of which are managed in the pool.

Note 6: Accounts receivable

Table 17
Accounts receivable
(Thousands of United States dollars)

Accounts receivable	*31 December 2017*	*31 December 2016*
Indicative contributions due from Parties to the Convention, the Kyoto Protocol and the International Transaction Log		
Current	6 799	7 070
Less provision for doubtful debts	(1 261)	(996)
Subtotal for indicative contributions	**5 537**	**6 074**

Voluntary contributions		
Current	4 014	2 629
Non-current	970	1 211
Subtotal voluntary contributions	**4 984**	**3 840**
Other receivables (current)	1 730	939
Total accounts receivable	**12 251**	**10 853**

76. Indicative contributions reflect the contributions receivable from Parties to the Convention to fund the Core Budget, contingent budget for Conferences and the International Transactions log in accordance with the Financial Procedures adopted by the COP. Current voluntary contributions receivable are for confirmed contributions that are due within twelve months from the reporting date. Other receivables represent amounts invoiced to member governments, other UN agencies and individuals for services provided. Provisions have been established covering indicative contributions receivables and other receivables equal to 50 per cent of amounts outstanding for more than three but less than four years and 100 per cent of amounts outstanding for more than four years.

Note 7: Other current assets

77. Other current assets consist of the following:

Table 18
Other current assets
(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Prepayments	7 679	1 645
CDM Loan Scheme Advance	6 191	6 519
Project Clearing	921	227
Travel Advances	219	354
Education Grant Advances	1 092	1 037
Total	**16 104**	**9 782**

78. Prepayments include advances to vendors and other UN agencies.

79. The UNFCCC loan scheme for CDM is administered by the UN Office for Project Services and the United Nations Environment Programme. The advances provided are covering the requirements for loans to be handed out to participants of the scheme as well as to cover related administrative expenses.

80. The project clearing accounts is the current account balance with the United Nations Development Programme.

Note 8: Property, plant and equipment

Table 19
Property, plant and equipment

(Thousands of United States dollars)

	Vehicles	*Communication and IT equipment*	*Furniture and machinery*	*Total*
Cost				
At 1 January 2017	49	2 806	45	2 900
Additions		273		273

	Vehicles	*Communication and IT equipment*	*Furniture and machinery*	*Total*
Disposal				
Translation				
At 31 December 2017	**49**	**3 080**	**45**	**3 173**
Accumulated depreciation				
At 1 January 2017	13	2 507	38	2 558
Depreciation during the year	5	243	2	251
Disposal				
Translation				
At 31 December 2017	**18**	**2 751**	**40**	**2 809**
Net Book Value				
At 31 December 2017	**31**	**329**	**5**	**365**
At 31 December 2016	36	298	6	342

81 Assets are reviewed annually to determine if there is any indication that assets may be impaired in their value. During 2017 there was no indication for any equipment being impaired.

Note 9: Intangible assets

Table 20
Intangible assets
(Thousands of United States dollars)

	Internally developed software
Opening balance 1 Jan 2017	2 319
Additions	-
Disposal	-
Total as at 31 Dec 2017	**2 319**
Accumulated Amortization 1 Jan 2017	500
Amortization during the year	463
Disposal	
Total as at 31 Dec 2017	**963**
Net book Value 31 Dec 2017	1 355
Net book Value 01 Jan 2017	1 819

82 UNFCCC has utilized the transition provision in IPSAS 31 and the value of intangibles assets has been recognized prospectively beginning with costs incurred on or after 1 January 2014.

Note 10: Payables and Accruals

Table 21
Payables and Accruals
(Thousands of United States dollars)

	31 December 2017	*31 December 2016*

Vendor payables	2 527	1 376
Other payables	333	167
Accruals for goods and services	8 255	2 319
Total payables and accruals	**11 115**	**4 264**

83 Payables to vendors relate to amounts due for goods received and services rendered for which payment has not yet been made.

84 Accruals are liabilities for goods and services that have been received or provided to UNFCCC during the year which have not yet been invoiced by suppliers.

Note 11: Advance receipts

Table 22
Advance receipts
(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Conditional voluntary contributions	3 624	905
Indicative contributions received in advance	5 179	9 114
CDM fees received in advance	1 697	1 707
Total	**10 500**	**11 726**

85 UNFCCC recognizes a liability in cases where conditions are attached to voluntary contributions. Conditions are imposed by donors on the use of contributions, and include both an obligation to use the donation in a specified manner and an obligation to return any amount not expended in accordance with performance specified by the donation. The amount recognized as a liability is the best estimate of the amount that would be required to settle the obligation at the reporting date. As UNFCCC satisfies the conditions on voluntary contributions through performance in the specified manner, the carrying amount of the liability is reduced and an amount of revenue equal to that reduction is recognized.

86 Indicative contributions received in advance include amounts received before the actual due date established by the Financial Procedures.

87 Voluntary contributions received in advance include amounts received before an agreement is reached on the allocation of the contribution.

88 CDM and JI fees unearned represent fees received for which UNFCCC has not completed the delivery of all of the services for which the fee has been charged.

Note 12: Employee Benefits

89 The employee benefits liabilities outstanding at the reporting date are as follows:

Table 23
Employee benefit liabilities
(Thousands of United States dollars)

	31 Dec 2017	*31 Dec 2016*
Current employee benefit liabilities		
After service health insurance	245	226
Repatriation grant	1 431	732
Annual leave	276	465

Death benefit	11	13
Home leave travel	673	609
US tax reimbursement	43	22
Total current employee benefit liabilities	**2 679**	**2 067**
After service health insurance	62 637	69 716
Repatriation grant	9 886	8 520
Annual leave	3 253	6 092
Death benefit	121	166
Home leave travel	59	67
Total non-current employee benefit liabilities	**75 957**	**84 561**
Total employee benefit liabilities	**78 636**	**86 628**

90. The methodology for estimating the amounts of each liability is as follows:

91. **Education grant**. Internationally recruited staff members are eligible for partial reimbursement of the amounts paid for the education of dependent children up to maximum allowances established by the International Civil Service Commission (ICSC). The liability relates to the amount earned but not claimed at the reporting date. In case of education grants advances, 40 per cent of the advance is expensed in the current year while the balance of 60 per cent is recorded as staff advances under other current assets.

92. **After Service Health Insurance (ASHI)**. Staff members (and their spouses, dependent children and survivors) retiring from service at the age of 55 or later are eligible for ASHI coverage if they have contributory health insurance coverage prior to retirement for at least five years of service for staff hired before 1 July 2007 and ten years of service for staff hired after 1 July 2007. Staff hired before 1 July 2007 who retire with less than ten years but more than 5 years of covered receive unsubsidized coverage until enrolled for 10 years at which time the coverage is subsidized. UNFCCC's liability for ASHI is calculated as the residual liability after deducting contributions from retirees and a portion of the contribution from active staff.

93. **Repatriation grant and travel**. In accordance with UN Staff Rules and Staff Regulations, non-locally recruited UNFCCC staff are entitled to a grant calculated based on length of services and family status on separation from service if they have completed at least one year of service outside their home country. In addition, non-locally recruited UNFCCC staff are entitled to reimbursement of travel and transport of personal effects on separation for themselves, their spouse and their dependent children.

94. **Annual leave**. In accordance with UN Staff Rules and Staff Regulations, UNFCCC staff may accumulate annual leave of up to 60 working days which is payable on separation from service.

95. **Death benefit** includes lump-sum benefits to be paid in the event of the death in service of an official with a long-term contract who left a dependent spouse or child.

96. **Home leave**. Non-locally recruited UNFCCC staff is entitled to reimbursement for the costs of travel to their home country in the second year after their initial appointment and thereafter, every second year. The liability recorded has been calculated proportionately reflecting the number of months relates to the value of home leave entitlements that have been earned by officials since their last entitlement but not taken at the reporting date.

97. **US taxes**. American citizens that are officials of UNFCCC are reimbursed for the amount of income taxes payable on the compensation they earn from the organization.

98. An actuarial valuation at 31 December 2017 carried out in 2017/2018 has been utilized to determine the UNFCCC's estimated liability and expenses recognized on the Statements

of Financial Performance and Financial Position for repatriation grants and travel, death benefit, accumulated annual leave and after-service health insurance at the reporting date.

99. Each year, the UNFCCC reviews and selects assumptions and methods that will be used by the actuaries in the valuation to determine the expense and contribution requirements for the UNFCCC's after-service medical care plans and separation benefit plans. The discount rate is determined by calculating the expected benefit payments for each future year attributable to past service as of the valuation date and then discounting these benefit payments using spot rates for high quality corporate bonds. A single equivalent discount rate was then determined that resulted in the same past service obligation. The resulting single discount rate was rounded to the nearest 1/2 basis point.

100. The following assumptions and methods have been used to determine the value of after-service medical care liabilities for the UNFCCC at 31 December 2017.

Table 24
Key financial assumptions

	ASHI	*Repatriation Grant & Travel*	*Annual Leave*	*Death Benefit*
Discount rate at beginning of period	0.77%	3.72%	3.75%	3.40%
Discount rate at end of period	0.81%	3.55%	3.58%	3.42%
General inflation rate at beginning of period		2.20%		
General inflation rate at end of period		2.20%		
Salary increase rate at beginning and end of period	Based on the age of staff member calculated separately for professional and general service staff			
Healthcare cost trend rate at beginning of period	4.00%			
Healthcare cost trend rate at end of period	3.65%			

101. The effect of a one per cent change in the health care cost trend rate on UNFCCC's defined benefit obligation for ASHI is as follows:

Table 25
Impact of change in medical health care cost trend rate
(Thousands of United States dollars)

	Change	*After service health insurance*
On total defined benefit obligation	1%	21 888
	(1)%	(15 580)
On current service cost and interest cost component of liability	1%	2 143
	(1)%	(1 469)

102. The liabilities established for defined benefit obligations and the net service costs for 2016 are as follows:

Table 26
Liabilities established for defined benefit obligations and the net service costs for 2017
(Thousands of United States dollars)

	ASHI	*Repatriation Grant & Travel*	*Annual Leave*	*Death Benefit*

Reconciliation of defined benefit obligation				
Defined benefit obligation, beginning of year	69 942	9 252	6 557	179
Current service cost	7 288	636	488	19
Interest cost	538	330	237	6
Benefits paid (net of participant contribution)	(228)	(760)	(483)	(13)
Liability (gain)/loss due to actuarial assumptions and experience recognised in net assets	(14 658)	1 349	(3 270)	(59)
Total liability recognized on Statement of Financial Position	**62 882**	**10 807**	**3 529**	**132**
Annual expense for calendar year				
Current service cost	7 288	636	488	19
Interest cost	538	330	237	6
Benefits paid (net of participant contribution)	(228)	(760)	(483)	(13)
Total charge/(credit) recognized on statement of financial performance	**7 598**	**206**	**242**	**12**
Estimated benefit payments net of participant contributions payable in 2018	245	921	276	11
Cumulative amount of actuarial (gain)/loss recognized in net assets				
Liability (gain)/loss due to actuarial assumptions and experience recognised in net assets	(14 658)	1 349	(3 270)	(59)
Total portion of cumulative liability recognized in net assets at end of year	**(14 658)**	**1 349**	**(3 270)**	**(59)**

103. Effective 1 January 2017, a monthly accrual has been implemented to start funding after-service health insurance liabilities relating to extra budgetary activities.

104. Under IPSAS 25, the liabilities for ASHI, repatriation grant and travel, death benefit and accumulated annual leave are considered unfunded and, therefore, no fair value of plan assets has been recognized and the entire ASHI liability is recognized as a liability of the UNFCCC.

105. Beginning in 2014 with the adoption of IPSAS, interest cost and current service cost related to the defined benefit obligation for ASHI liability, repatriation grant and travel, death benefits and accumulated annual leave are recognized on the statement of financial performance as a component of personnel expenditure. Actuarial gains or losses for defined benefits plan results from changes in actuarial assumptions or experience adjustments including experience adjustments are directly recognized in the consolidated statement of changes in net assets. The balance of each provision is reviewed annually and adjusted to reflect actual experience.

106. Short-term employee benefit liabilities for education grants and home leave are recognized at an undiscounted amount. Short-term compensated absences are recognized, as employees earn their entitlement to future compensated absences through rendering a service to the UNFCCC. For non-accumulating compensating absences an expense is recognized when the absence occurs.

United Nations Joint Staff Pension Fund (UNJSPF)

107. The Fund's Regulations state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the Consulting Actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the Open Group Aggregate Method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

108. UNFCCC's financial obligation to the UNJSPF consists of its mandated contribution, at the rate established by the United Nations General Assembly (currently at 7.9 per cent for participants and 15.8 per cent for member organizations) together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

109. During 2017, the Fund identified that there were anomalies in the census data utilized in the actuarial valuation performed as of 31 December 2015. As such, as an exception to the normal biannual cycle, a roll forward of the participation data as of 31 December 2013 to 31 December 2016 was used by the Fund for their 2016 financial statements. An actuarial valuation as of 31 December 2017 is currently being performed.

110. The roll forward of the participation data as of 31 December 2013 to 31 December 2016 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 150.1% (127.5% in the 2013 valuation). The funded ratio was 101.4% (91.2% in the 2013 valuation) when the current system of pension adjustments was taken into account.

111. After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2016, for deficiency payments under Article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of this report, the General Assembly has not invoked the provision of Article 26.

112. During 2017, UNFCCC's contributions paid to UNJSPF amounted to 7.4 million (2016 7.8 million). Expected contributions due in 2018 are 7.0 million.

113. The United Nations Board of Auditors carries out an annual audit of the UNJSPF and reports to the UNJSPF Pension Board on the audit every year. The UNJSPF publishes quarterly reports on its investments and these can be viewed by visiting the UNJSPF at www.unjspf.org.

Note 13: Provisions

Table 27
Provisions
(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Provision for legal cases	0	0
Total	**0**	**0**

114. At year end, UNFCCC had no pending cases with the United Nations Administrative Tribunal.

Note 14: Other current liabilities:

Table 28
Other current liabilities
(Thousands of United States dollars)

	31 December 2017	*31 December 2016*

Cash Payments Rejected by Bank	0	3
Other Liabilities	8	0
Total	**8**	**3**

Note 15: Revenue

115. Indicative contributions are contributions received from Parties to the Convention toward funding the Core Budget the International Transaction Log under the Financial Procedure, based on the United Nations scale of assessment. The contributions are based on a biennium budget adjusted for changes in exchange rates and post adjustments and are recognized as of the first day of the year to which they relate. Indicative contributions are considered to be without conditions.

Table 29
Indicative contributions
(Thousands of United States dollars)

	2017	*2016*
Core budget to the convention	27 800	29 036
International transaction log	2 722	2 847
Total	**30 522**	**31 884**

116. Voluntary contributions are recognized as revenue at the point of signature except where such agreement contains a condition in which case recognition as revenue is deferred until the conditions specified in the donor agreement have been satisfied.

Table 30
Voluntary contributions
(Thousands of United States dollars)

	2017	*2016*
Voluntary contribution to the core budget	802	839
Participation trust fund	2 184	2 093
Trust fund for supplementary activities	16 252	18 075
Special annual contribution from the host country	1 872	2 018
Special account for activities for conferences	19 117	4 279
Total	**40 227**	**27 304**

117. Fee income includes charges for the Clean Development Mechanism (CDM) and Joint Implementation (JI).

Table 31
Fee Income
(Thousands of United States dollars)

	2017	*2016*
CDM fees	8 578	10 834
Total	**8 578**	**10 834**

118. Income from the Clean Development Mechanism and Joint Implementation includes fee-based income to finance CDM activities consisting of:

(a) Accreditation and related fees from commercial bodies to become designated operational entities to validate CDM project activities. The fee is calculated on the basis of the estimated average cost per application. Entities from non-Annex I Parties may have the possibility of paying 50 per cent of the non-reimbursable fee when they apply for accreditation, provided that they state their inability to pay the full fee at application. The remaining 50 per cent of the fee should be paid at a later stage once and if the applicant entity is accredited and designated and starts operation. The non-reimbursable application fee is USD 15,000 per application. In addition, fees are received to cover the costs for the work provided by CDM accreditation team (daily fee of USD 400);

(b) Registration fees charged for the formal acceptance by the CDM Executive Board of a validated project as CDM project activity. It is based on the expected average annual Certified Emission Reductions for the proposed project activity over its crediting period. No registration fee shall be payable for activities and programmes of activities hosted in least developed countries. No registration fee shall be payable until after the date of the first issuance of CERs in countries with fewer than 10 registered CDM project activities. The registration fee is a) USD 0.10 per CER issued for the first 15,000 tonnes of CO2 of the expected annual CERs; b) USD 0.20 per CER issued for any amount in excess of 15,000 tonnes of CO2 equivalent of the expected annual CERs. The maximum registration fee is USD 350,000;

(c) Share of proceeds to cover administrative expenses is:

(i) USD 0.10 per CER issued for the first 15,000 tonnes of CO2 equivalent for which issuance is requested in a given year;

(ii) USD 0.20 per CER issued for any amount in excess of 15,000 tonnes of CO2 equivalent for which issuance is requested in a given year;

(iii) No share of proceeds shall be due for project activities and PoAs hosted in least developed countries. The registration fee shall be deducted from the share of proceeds due for the issuance of CERs. In effect, the registration fee is an advance payment of the share of proceeds due for the issuance of CERs likely to be achieved during the first year.

(d) Methodology fees for the proposal of a new methodology to the Executive Board for consideration and approval. The non-reimbursable methodology fee is USD 1,000. The fees also include accreditation fees and fees for processing verification reports to cover administrative costs relating to the activities of the Joint Implementation Supervisory Committee (JISC). The fee charge has been discontinued from May 2016 onwards.

Table 32
Interest revenue

	31 December 2017	*31 December 2016*
Investment income – Interest earned	2 715	2 342
TOTAL	**2 715**	**2 342**

119. Services in kind are not recognised in the face of the financial statements.

120. Gain on foreign exchange represent gains realized on transactions occurring in currencies other than United States dollars and unrealized losses resulting from revaluation of monetary assets.

Note 16: Expenses

Table 33

Expenses
(Thousands of United States dollars)

	2017	*2016*
Personnel expenditure	55 444	54 410
Travel	9 331	7 970
Contractual services	25 574	16 691
Operating expenses	1 869	1 460
Other expenses	2 219	2 024
Depreciation of equipment	251	282
Amortization of intangible assets	464	355
Return/transfer of donor funding	153	6 076
Loss on foreign exchange	0	630
Total	**95 305**	**89 897**

121. Personnel expenditure includes all international and national staff expenses such as salaries, post adjustments, entitlements, pension and health plan contributions for professional and general service category staff. It also includes temporary staff expenses such as costs relating to the employment of temporaries and supernumeraries.

122. Travel covers the cost of airfare and other transport cost, daily support allowances and terminal allowances.

123. Contractual services include cost of acquiring goods and services from commercial providers, mainly for IT related and consultancy services for different service periods.

124. Operating expenses include cost of maintenance, rent, communications, joint activities and other operating expenses.

125. Other expenses include allowances for doubtful debts and cost for inter-agency and meeting related expenses.

Note 17: Reserves

126. A reserve is established for the Core Budget and the Budget of the International Transaction log as part of the adoption of the budget by the COP. For the CDM trust fund, a reserve of USD 45 million has been established. The total reserves at the reporting date amount to USD 49.0 million. The Appendix D to the Staff Rules covers staff members for work related death, injury or illness attributable to the performance of official duties on behalf of the United Nations for which UNFCCC maintains a corresponding reserve.

Table 34
Reserves as at 31 December 2017
(Thousands of United States dollars)

Reserves for Core Budget and ITL	2 977
CDM trust fund reserve	45 000
Reserve for Appendix D	1 060
Total reserves	**49 038**

Note 18: Fund Accounting and Segment Reporting

127. The UNFCCC is a single purpose entity established by the Parties to the Convention and the United Nations as the joint technical cooperation agency for business aspects of trade

development. The UNFCCC has one major mandate to assist the signatories of the UN Framework Convention on Climate Change to limit average global temperature increases and the resulting climate change, and to cope with whatever impacts are inevitable in part through enforcing the legally binding emission reduction targets established in the Kyoto Protocol. It, therefore, does not have segments as defined under IPSAS.

128. However, to provide essential information to senior management and owners on the utilization of resources by funding source, separate funds have been established to reflect the major funding sources of UNFCCC as follows:

(a) Trust fund for the Core Budget of UNFCCC financed from indicative contributions (or general purpose contributions from donors) supports the core functions of the secretariat;

(b) Trust fund for the Participation in the UNFCCC process financed from voluntary contributions supports participation of representatives from eligible developing country Parties and Parties with economies in transition in the sessions of the Conference of the Parties and its subsidiary bodies;

(c) Trust fund for Supplementary activities financed from voluntary contributions including both bilateral funds involving the UNFCCC, a donor and often a recipient government and programmes to which multiple donors make voluntary contributions supports mandated activities for which provisions are not made under the Core budget;

(d) Trust fund for the Clean Development Mechanism financed from fees charged for registration of projects support the administration of the clean development mechanism enabling parties to meet their emission limitation and reduction commitments by using certified emission reductions (CERs) generated from CDM projects;

(e) Trust fund for the International transactions log (ITL) financed from indicative contributions (or general purpose contributions from donors). The ITL to verify the validity of transactions undertaken by national registries of Parties of Annex B of the Convention and CDM registry. The ITL takes a central role between registries and is an essential component of the settlement infrastructure for emissions trading under the Kyoto Protocol;

(f) Trust fund for the Special Annual Contribution from the Government of Germany financed from a voluntary contribution from the government in which the UNFCCC headquarters is located. Funds are used to finance the logistical arrangements of events taking place in Germany including workshops and sessions of the subsidiary bodies;

(g) Special account for Programme Support Costs financed from charges made to the projects financed from voluntary contributions used to manage the overhead charges payable on all trust funds to cover costs relating to administrative services;

(h) Special account for conferences and other recoverable costs financed from voluntary contributions used to finance costs associated with the hosting of the Conference of the Parties under the host country agreement. Balances in this account are refunded to the host country;

(i) Cost recovery fund

(j) End of service and post employee benefits fund not currently financed.

129. Programme Support Revenue is charged in line with the UN financial procedures where UNFCCC charges a standard programme support cost rate of 13 per cent on expenditures incurred. For associate experts and EC funded projects, the rate varies from 7 per cent to 13 per cent.

130. All funds elimination includes revenue and expense arising from transfers between funds which are accounted for at cost and are eliminated on consolidation.

Table 35 Statement of assets, liabilities and net assets by fund

ASSETS											TOTAL
Current Assets											
Cash and cash equivalents	10 614	677	(1 529)	29	2 063	700	646	771	133		14 104
Short-term investments	98 114	6 032	2 095	262	18 296	7 006	5 726	6 887	1 176		145 513
Indicative contributions receivable		5 587									5 587
Other receivables	525	(605)	65	1	4 372	68	1 129	176	94		5 744
Other current assets	7 288	972	(5)		1 127	23	5 222	1 078	399		16 104
Total current Assets	112 541	12 583	625	292	25 858	7 867	12 723	8 862	1 742		183 093
Non-current assets											
Other receivables			53		917						970
Long-term investments	29 667	1 892	660	82	5 767	2 208	1 895	2 155	371		44 698
Property, plant and equipment		78			46		229	11			365
Intangible assets	148	271			936						1 355
Total non-current assets	29 816	2 241	713	82	7 667	2 208	2 054	2 167	371		47 208
TOTAL ASSETS	**142 356**	**14 824**	**1 338**	**375**	**33 525**	**10 075**	**14 757**	**11 028**	**2 113**		**230 301**
LIABILITIES											
Current Liabilities											
Payables and accruals	949	451	(8)	7	1 084	469	7 981	153	243		11 115
Advance receipts	1 607	4 730	415		3 208	470					10 930
Employee benefits	207	654		4	69	25	17	70	110	1 453	2 679
Other current liabilities	4	4									8
Total non-current liabilities	2 816	5 819	407	11	4 362	890	7 949	282	353	1 453	24 301
Non-current liabilities											
Employee benefits	13	32			8			3	3	75 897	75 957
Total non-current liabilities	13	32			8			3	3	75 897	75 957
TOTAL LIABILITIES	**2 830**	**5 851**	**407**	**11**	**4 370**	**899**	**7 949**	**235**	**356**	**77 350**	**100 258**
NET ASSETS											
Accumulated surpluses/(deficits)	94 527	5 201	931	364	29 155	8 910	6 808	10 793	1 757	(77 350)	82 096
Reserves	45 000	3 772				266					49 038
TOTAL NET ASSETS	139 527	8 973	931	364	29 155	9 175	6 808	10 793	1 757	(77 350)	130 133
TOTAL LIABILITIES AND NET ASSETS/EQUITY	**142 356**	**14 824**	**1 338**	**375**	**33 525**	**10 075**	**14 757**	**11 028**	**2 113**	**0**	**230 391**

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Table 36 Statement of revenue and expenses by fund

REVENUE												TOTAL
Indicative contributions		27 800				2 722						30 522
Voluntary contributions		802	2 184	1 872	16 252		19 117					40 227
CDM and JI service fees	8 572	2						4	4 150		(4 150)	8 578
Interest Revenue	1 786	150	41	17	293	132	156	105	26			2 715
Gain on foreign exchange	149	2 209	20	(0)	378	98	445	3	7			3 304
Other/miscellaneous revenue	33	103	(472)	4	603		63	(35)	2 536		(2 490)	344
Programme support income								8 910			(8 902)	8
TOTAL REVENUE	**10 550**	**31 066**	**1 774**	**1 888**	**17 525**	**2 952**	**19 780**	**8 986**	**6 719**		**(15 543)**	**85 698**
EXPENSES												
Personnel expenditure	10 021	20 809		613	4 143	830	799	7 118	3 054	8 058		55 444
Travel	1 535	1 082	3 413	56	2 645	30	513	57				9 331
Contractual services	2 638	3 413	33	643	5 185	1 265	11 984	297	2 655		(2 490)	25 623
Operating expenses	199	485		0	682	3	270	0	230			1 869
Other expenses	1 847	278	2	197	744	122	824	2 098	257		(4 150)	2 219
Depreciation of equipment	27	14			91		112	7				251
Amortization of intangible assets	69	108			287							464
Return/transfer of donor funding					153							153
Programme support	2 079	3 326	454	191	1 718	368	767				(8 902)	
TOTAL EXPENSES	**18 414**	**29 514**	**3 902**	**1 700**	**15 649**	**2 617**	**15 269**	**9 577**	**6 197**	**8 058**	**(15 543)**	**95 354**
TOTAL SURPLUS/(DEFICIT)	**(7 864)**	**1 551**	**(2 128)**	**189**	**1 877**	**335**	**4 512**	**(591)**	**522**	**(8 058)**		**(9 656)**

Note 19: Budget Comparison and Reconciliation

131. UNFCCC's budget is prepared on a modified cash accounting basis and the financial statements are prepared on a full accrual basis in accordance with IPSAS. Statements V-A, V-B-V-C. The budgets are adopted on a biennial basis and divided into annual amounts for presentation in the financial statement. Comparison of budget and actual amounts compares the final budget to actual amounts calculated on the same basis as the corresponding budgetary appropriations. The comparison is only made in respect of budgets adopted by the COP and CMP.

132. The actual amounts presented on a comparable basis to the budget are not prepared on a comparable basis to the Statement of Financial Performance. A reconciliation of the budgetary amounts to the amounts presented on the financial statements, identifying separately any basis, entity differences. There may also be differences in formats and classification schemes adopted for presentation of financial statements and the budget.

133. Basis differences capture the differences resulting from preparing the budget on a modified cash basis. In order to reconcile the budgetary results to the net results on an IPSAS basis the non-cash elements such as un-liquidated obligations, payments against prior year obligations and outstanding indicative contributions are included as basis differences.

134. Presentation differences are differences in the format and classification schemes in the Statement of Financial Performance and the Statement of Comparison of Budget and Actual Amounts.

135. Entity differences represent funds other than Core budget, International Transactions Log and Contingent budget for conference services that are reported in the Statement of Financial Performance.

136. The reconciliation between the actual amounts presented in statements V-A, V-B and V-C and the actual amounts presented on the Statement of Financial Performance is as follows:

Table 37
Reconciliation of net result on budgetary and IPSAS basis

Reconciliation of net result on budgetary and IPSAS basis	
Actual net result on the Statement of budgets to actual comparison	
Statement V-A Core Budget	(1 175)
Statement V-B International Transaction Log	(478)
Statement V-C Contingent budget of conference services	
Actual net result on budgetary basis	**(1 653)**
Presentation differences	
Additional income components under IPSAS	1 190
Exchange gains/losses	2 307
Conversion of unliquidated obligations to delivery principle	384
Capitalization of equipment & intangible assets	(76)
Changes in provision for doubtful debts	(264)
Sub-total presentation differences	**3 539**
Entity differences on IPSAS Basis	
Participation in UNFCCC process	(2 128)

Reconciliation of net result on budgetary and IPSAS basis	
Supplementary activities	1 877
Clean development mechanism	(7 864)
Special contribution from Germany	189
Special account for conferences	4 512
Programme support costs	(591)
Cost Recovery	522
End of service and post-employment benefits	(8 058)
Sub-total entity differences	**(11 542)**
Actual net result on the Statement of Financial Performance	**(9 656)**

Note 20: Budget to Actual variance analysis

137. Explanations of material differences between the original budget and final budget and, final budget and the actual amounts are presented in the financial report from the Executive Secretary accompanying these statements.

Note 21: Related Parties

138. Except otherwise noted in these statements for revenue from non-exchange transactions including contributions in kind, all transactions made with 3rd parties occur within a normal supplier or client/recipient relationship or at arm's length terms and conditions.

139. The Organization reimburses the United Nations for the cost of all services provided at such rates as may from time to time be agreed upon for that purpose by both organizations.

140. The charges paid to the United Nations (UN Office at Geneva – UNOG) of USD 0.5 million for services related to security, payroll, treasury and other services are considered to be provided on a normal supplier basis. The United Nations Secretariat also provides support services on a normal supplier basis such as translation and editing of documents related to the meetings of the Conference of Parties to the Organization from its Regular Budget at a value of EUR 5.1 million in 2017.

141. The authority to establish funds is vested in the Secretary General of the United Nations with the approval of the Conference of the Parties. All such funds must be consistent with the objectives of the UN Convention on Climate Change. The termination of any existing fund by the Conference of the Parties and the distribution of any remaining fund balance is subject to consultation with the Secretary General of the United Nations.

Table 38
Summary of senior management and related compensation

Number of individuals	*Aggregate remuneration (in thousands of USD)*	*Outstanding advances at 31 Dec 2017 (in thousands of USD)*
13	3,298	154

142. During 2017, four individuals of senior management left the organization while four individuals joined the organization during 2017.

143. The senior management personnel of UNFCCC are the Executive Secretary, Deputy Executive Secretary and Directors of programmes, who have the authority and responsibility

for planning, directing and controlling the activities of UNFCCC and influencing its strategic direction.

144. Advances are those made against entitlements in accordance with the staff rules and regulations. There were no loans granted to key management personnel.

Note 22: Leases, commitments and contingencies

145. There are no contingent liabilities arising from legal actions and claims that are likely to result in a significant liability to UNFCCC.

146. There are no contingent assets of which relate to official pledges made by donors to UNFCCC for future contributions at the reporting date.

Note 23: Events after the reporting date

147. UNFCCC's reporting date is 31 December 2017. The financial statements were authorized for issue on 31 March 2017, the date at which they were submitted to the External Auditor by the Executive Secretary. On the date of signing these accounts, there have been no material events, favourable or unfavourable, incurred between the reporting date and the date when the financial statements were authorized for issue that would have impacted these statements.

Note 24: In-kind contributions of services

148. The UNFCCC receives in-kind contributions from the government of the Federal Republic of Germany of the right to use land, office space and other facilities in its operations. The Organization has not received title to these properties which remain with the government. The facilities are provided to UNFCCC without charge. The agreement under which the facilities are provided does not entail formal cancellation policies or timelines. In addition, the Government of Germany provided conference services for COP23 in taking place in Bonn in November 2017. UNFCCC does not recognize the value of in-kind contributions of services including the financial value of the donated right to use the facilities provided by the Federal Republic of Germany on the financial statements.

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Framework Convention on Climate Change

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Item 20(a) of the provisional agenda
Administrative, financial and institutional matters
Audit report and financial statements for 2017

Financial report and audited financial statements for the year 2017 and report of the United Nations Board of Auditors

Note by the secretariat

Addendum

Comments by the secretariat

Summary

The report of the United Nations Board of Auditors for the year 2017 (FCCC/SBI/2018/INF.11) includes recommendations relating to the financial audit of the UNFCCC. This addendum, which should be read in conjunction with that report, has been prepared to provide the secretariat's comments on those recommendations and to specify the initial actions taken to implement them. In the "Status of implementation" column of the two tables that comprise this document, "Implemented" indicates that no further action is required, while "Under implementation" indicates that the secretariat has started undertaking the recommended action.

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Table 1
Recommendations of the United Nations Board of Auditors for the year that ended on 31 December 2017

Recommendations[a]	*Comments by the secretariat*	*Status of implementation*
Recommendation 1, paragraph 29:		
The Board recommends that UNFCCC assess additional suitable collaborative measures such as payment plans to ensure that the outstanding contributions are recovered in a timely manner and seek approval from the COP on instalment plans.	SBI 46 requested[b] the secretariat to organize a technical workshop on the margins of SBI 47 to discuss ways to increase the efficiency and transparency of the budget process. At the workshop the secretariat presented a paper on outstanding indicative contributions that included a reference to payment plans. At an informal group meeting at SBI 48.1, a representative of a Party welcomed the idea of payment plans. SBI 49 is expected to consider document FCCC/SBI/2018/INF.18, which includes a section on payment plans at the United Nations Secretariat and other United Nations entities and a further section on the possible use of payment plans at the secretariat.	Implementation in progress
Recommendation 2, paragraph 30:		
The Board recommends that UNFCCC assess options to clear the small amounts of outstanding contributions.	Based on a review of existing small amounts outstanding, balances relating to the period 1996–2017 of EUR 705.68 and USD 144.90 have been written off.	Implemented
Recommendation 3, paragraph 35:		
The Board recommends that UNFCCC assess whether it could benefit from an ICT system that permits the automated preparation of the financial statements.	The secretariat organized meetings with experts on this matter to evaluate the benefits and associated costs of implementing automation tools for the preparation of the financial statements. Further options will be considered to ensure the best possible solution to this matter given the current financial constraints.	Implementation in progress
Recommendation 4, paragraph 43:		
The Board recommends that UNFCCC explore options for a "pre-close-out" to analyse and clear its accounts.	Given the limited resources within the finance function, the accounts have been reviewed throughout the year to the extent possible. As part of the year-end activities, the accounting entries up to November have been examined for anomalies, and corrective action will be taken before the preparation of the financial statements. In addition, an annual account closure group is meeting to clear any issues identified in the pre-closure review.	Implementation in progress
Recommendation 5, paragraph 60:		

Recommendations[a]	*Comments by the secretariat*	*Status of implementation*
The Board recommends that UNFCCC review its funding policy for after-service health insurance and repatriation liabilities, in particular the duration of the accumulation phase, and seek a COP decision on the funding plan.	A policy paper on after-service health insurance funding has been developed and is being considered internally. Once cleared, a corresponding discussion will be facilitated with the COP.	Implementation in progress
Recommendation 6, paragraph 61:		
The Board recommends that UNFCCC enter into an agreement with United Nations Headquarters on the pooled fund for after-service health insurance and repatriation liabilities to have a legal basis for its contributions and the corresponding scope of service.	The secretariat will be managing its after-service health insurance and repatriation liabilities as well as associated reserves directly, including the establishment of reserve balances and withdrawal from the reserves as appropriate to ensure the long-term viability of these liabilities for the organization as agreed with United Nations Headquarters.	Implementation in progress
Recommendation 7, paragraph 66:		
The Board recommends that UNFCCC enhance the note 'Employee benefits' of the financial statements with additional information about the provision of funding of long-term employee benefits.	The note on employee benefits will be enhanced as suggested for the 2018 financial statements.	Implementation in progress
Recommendation 8, paragraph 74:		
The Board recommends that UNFCCC clarify the roles of audit focal points at all levels; in particular, update the delegation to a specific function, preferably the Deputy Executive Secretary, establish clear terms of reference including division of responsibilities between the secretariat's management and the focal points from the individual programmes and ensure that this information is disseminated to all staff.	The roles and responsibilities of the audit focal points have been clarified and made available on the UNFCCC intranet. The draft delegation to the office of the Deputy Executive Secretary has been prepared and is under consideration.	Implementation in progress
Recommendation 9, paragraph 88:		
The Board recommends that UNFCCC critically examine its policies on hiring consultants and individual contractors and whether there is still reason for maintaining them.	The secretariat is in consultation with OHRM for updated policies on hiring consultants and individual contractors. It will adopt, as necessary, the updated OHRM policies once finalized.	Implementation in progress
Recommendation 10, paragraph 89:		
If UNFCCC should conclude to continue applying its own policies, the Board recommends that UNFCCC	The secretariat seeks to align its guidelines on consultants and individual contractors with those of the United Nations Secretariat.	Implementation in progress

Recommendations[a]	*Comments by the secretariat*	*Status of implementation*
adhere to the delegated authority including the required agreement of the USG-AM and update its guideline on consultants and individual contractors in the light of United Nations' policies.	Consultations on updated policies and guidelines is ongoing and will be aligned with the revised OHRM policy. Specific exemptions, as required, will be specifically sought from USG-AM as per the delegation of authority to the secretariat.	
Recommendation 11, paragraph 109:		
The Board recommends that UNFCCC ensure that no exceptions are to be made from the mandatory registration in the roster, from proper documentation and from the mandatory competitive process for retired staff.	The secretariat has ensured that all consultants hired have registered in the consultants' roster. Continuous review of documentation to indicate a competitive process is ongoing with each consultant engagement.	Implementation in progress
Recommendation 12, paragraph 117:		
The Board recommends that UNFCCC expedite the revision process of its procurement policy and procedures in order to provide an up-to-date basis for its procurement activities.	The revision of the UNFCCC procurement policy and procedures is under way and scheduled to be completed by 31 March 2019.	Implementation in progress
Recommendation 13, paragraph 124:		
The Board recommends that UNFCCC ensure that justification is provided for all cases of non-compliance without exception.	Supported by the Umoja system, justification is now mandatory and provided for all cases of non-compliance, including a narrative in the case of non-predefined reasons.	Implemented
Recommendation 14, paragraph 131:		
The Board recommends that UNFCCC take action in order to improve the completion rate of the United Nations Basic Security Training.	The secretariat sent messages to all staff reminding them of all United Nations mandatory training with a completion deadline of 30 September 2018.	Implementation in progress
Recommendation 15, paragraph 138:		
The Board recommends that UNFCCC perform a fraud risk assessment in line with or embedded in the enterprise risk management.	The secretariat agreed with the recommendations. The acceptance of the recommendations was on the basis of available funding and the outcome of the ongoing organizational review.	Being reviewed
Recommendation 16, paragraph 139:		
The Board recommends that UNFCCC dedicate an organizational function which coordinates, implements and monitors the implementation of the framework (focal point).	The secretariat agreed with the recommendations. The acceptance of the recommendations was on the basis of available funding and the outcome of the ongoing organizational review.	Being reviewed. In the meantime, the implementation of the policy and monitoring is coordinated by the office of the Director of the

Recommendations[a]	*Comments by the secretariat*	*Status of implementation*
		Administrative Services programme.

Abbreviations: Board = United Nations Board of Auditors, COP = Conference of the Parties, ICT = Information and Communication Technology, OHRM = Office of Human Resources Management, SBI = Subsidiary Body for Implementation, USG-AM = Under-Secretary-General for Administration and Management.

[a] The recommendations are reproduced as received from the Board.

[b] FCCC/SBI/2017/7, paragraph 129.

Table 2

Recommendations of the United Nations Board of Auditors for the year that ended on 31 December 2016

Recommendations[a]	*Comments by the secretariat*	*Status of implementation*
Recommendation 1, paragraph 68:		
The Board recommends that UNFCCC evaluate the restructuring process and draft lessons learned from the restructurings of the SDM and ICT programmes before continuing with further restructurings.	This recommendation was overtaken by events following the issuance of the draft administrative instructions on the downsizing policy by the secretariat in December 2017. As per the Board's audit recommendations, the secretariat will adopt the revised downsizing policy once finalized. Any desired exemptions to the policy shall be sought in line with the delegation of authority to the secretariat.	Under implementation
Recommendation 2, paragraph 96:		
The Board recommends that UNFCCC formally designates a focal point on disability and accessibility issues and inform staff members accordingly.	The arrangements in place within the secretariat regarding disability and accessibility have thus far worked as required. Technically, the premises of the United Nations Campus in Bonn are managed by UNV and not the secretariat. The secretariat has no mandate to operate or provide such centralized activities. Such a centralized function would need to be incorporated by UNV into the responsibilities of the United Nations Common Services, which is the unit that implements United Nations wide mandates in Bonn. The focal point for disability remains with the Chief of Human Resources and for the physical premises with the General Services team working in conjunction with UNV. This has now been communicated to all staff on the UNFCCC intranet.	Implemented

Abbreviations: Board = United Nations Board of Auditors, ICT = Information and Communication Technology, SDM = Sustainable Development Mechanisms, UNV = United Nations Volunteers.

[a] The recommendations are reproduced as received from the Board.